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SHARING ECONOMY AT LARGE

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Sharing Is (S)Caring

Sharing has always been considered a very ethically good thing to do. Most of us have probably at least once during our usually blissful childhood years heard that we should *share* something of our own with other kids on the block. Generally, after the initial hesitation – quite understandable, since it does not seem like great fun to spend less time playing with our toys on behalf of others – we would most likely notice how great it is to share something. Even though we are already all grown up, we are constantly reminded that "Life's for Sharing" – to put it in the words of an advertising campaign by one of the key mobile operators. However, recently, it seems that 'sharing' *sensu stricto* is generating a lot more controversy than sheer encouragement. And this is because of the sharing *economy*.

In the ever-changing reality, where ideas are disseminated with the speed of light, in the times after yet another economic crisis, in the age on the brink of post-consumption, sharing cars, apartments, and other commodities on a broad scale was only a matter of time. The digital era enabled the emergence of the platforms of the likes of Uber or Airbnb only a little faster than anticipated. After all, *quae non valeant singula, iuncta iuvant*[1]! Unfortunately, when one group benefits from this natural development, others may feel cheated – of their profits, privileges or hitherto prevailing monopolies. In this sense, their understanding of the 'sharing' stems, sadly, rather from the Middle English origins of the word, meaning 'cutting' or 'dividing' (moreover, the resemblance to 'shear' is uncanny!). And if this is the case, then *Houston, we have a problem*. Success always has many fathers, but it generates even more rent-seekers. And we shall bear in mind the lesson already Homer tried to teach us: "Too many kings can ruin an army". It seems that the same goes for a sharing economy.

On top of that, the governments are, as usual, two steps behind – which does not really surprise us anymore, does it? The real challenge will occur the minute the rent-seekers and regulators try to do their utmost to catch up with the novelty, which more often than not results in hampering the initial potential of a given creative solution.

Given the numerous misconceptions, the lack of understanding of the concept or the phenomenon itself, we felt that it is our obligation to take up a sharing economy as our next topic. Nevertheless, it became obvious that there can be no talk of it without touching upon the digital solutions as such, since at the end of the day, all that matters is making all individuals better citizens and better people. Therefore, we proudly present you the result of our work: a collection of articles and analyses devoted to (first and foremost) the sharing economy and secondly, to the digital challenges our region faces. Because as the fictional but nonetheless real Ayn Rand once said, "If you don't know, the thing to do is not to get scared, but to learn". And, after all, *sharing is caring*, right?

Enjoy your reading
and remember to share it,

Olga Łabendowicz
Editor-in-Chief of *4liberty.eu Review*
Coordinator of 4liberty.eu network

[1] Latin for "What is without value on its own, helps when joined".

Contents

The Emergence and Development of a Sharing Economy

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TOMASZ
KASPROWICZ

The sharing economy is a relatively new phenomenon. It combines various ideas and technologies in order to provide new value to market participants who were previously excluded from the market or had limited access to it. At the same time, it increases competition resulting in lower prices, increases entrepreneurship and household incomes. It also upsurges asset utilization, which may translate into environmental gains. It would seem that a sharing economy is the sum of all things good.

However, these benefits come at a price of damaging traditional businesses that make a living by renting assets. This, in turn, leads to protests, traditional job erosion, shifting the risk to workers and other externalities. Moreover, it is quite difficult to regulate and a tax sharing economy is a headache to administration. In some cases it leads to eradicating a sharing economy completely (the case of Uber in Hungary) or to some extent limiting the externalities but also its benefits (AirBnB in Berlin) .

DEFINING A SHARING ECONOMY

A sharing economy is a phenomenon not easy to define. In most cases it is assumed that to be a part of sharing economy, a platform needs to proclaim it (or be proclaimed as such by the media). This is clearly far too arbitrary to be useful for any analysis. Therefore, a more objective definition may come in handy. Of course, we shall bear in mind that it is still probably not the best definition possible but it is created for a single purpose of setting a clear framework of the presented analysis. Therefore, we shall understand a sharing economy as a market for renting physical assets or money with accompanying services over the Internet using P2P channels.

I am aware that this definition may be somewhat controversial. Many people include the entire P2P market plus companies using the B2P channel in the sharing economy: e.g. sharing knowledge (like Coursera that offers Massive Open On-line Courses or MOOC), pure services (like Task Rabbit that finds temporary employees) and even the sale of items (like eBay). This, hoverer, spans so many diverse phenomena that it is quite challenging to analyze properly. As discussed later, many parts of the peer to peer market have nothing to do with sharing at all.

At the same time, many others focus on the non-profit part of the sharing economy viewing it as a post-capitalist utopia in which people live in harmony freely sharing their resources with one another. Clearly, such phenomenon exist but it is mostly local and very limited compared to the for-profit sector due to human nature and limited resources that can be dedicated to maintaining infrastructure. It is also of little importance to the state due to its scale and limited taxation opportunities.

Finally, sharing existed before the Internet and ignoring it seems unfair, however the explosion of “new sharing” completely opened new modes of operation and allowed for rapid expansion that is of interest. Mixing in traditional tool libraries that work offline with no aid from the Internet (or traditional book libraries for that matter) would not help in understanding the changes that are reshaping asset rental services.

Nevertheless, the definition itself requires some supplementary discussion on crucial issues that help fully understand the scope of the phenomenon:

PEER-TO-PEER (P2P) DOMINANCE

The sharing economy vendors (or providers) are mostly people who do not formally run businesses – which is broadly referred to as the peer to peer market (or P2P). This does not mean that businesses are excluded from a sharing economy – however, in most cases they do not dominate the market. A sharing economy is therefore neither a synonym of P2P, nor does it cover all of it.

> THE P2P INFRASTRUCTURE IS OFTEN UTILIZED BY CORPORATIONS AND COMPANIES WHICH ACT IN A MANNER SIMILAR TO OTHER PARTICIPANTS AND AIM TO PROFIT FROM THE NEW BUSINESS MODEL

In general, the P2P market consists of several sectors: retail business (e.g. via eBay or a yard sale); software and media file sharing (e.g. via the torrent network or platform specific such as the Windows Store); virtual currency (Bitcoin being the most widely known); knowledge sharing (e.g. Massive Open Online Courses or Wikipedia); labor rental (e.g. TaskRabbit or Handy); the P2P financial market (crowdfunding by e.g. Kickstarter and P2P lending e.g. Lending Club); asset rental (e.g. Airbnb).

In the presented article, we shall consider the last sector mentioned above as a sharing economy, but only the portion conducted on-line. Thus, a neighbor borrowing your lawn-mover does not count. Sometimes transactions are borderline between the respective categories. For example, driving services like Uber or Lyft, are a combination of asset rental and labor rental. However, for the sake of clarity, they are included here as a part of the sharing economy.

The boom in the P2P market creates a group of people quite difficult to categorize. They engage in the P2P market regularly and make it their main source of income, and at the same time they do not start a regular business. It is the simplest form of entrepreneurship, libertarian style as it is oblivious to most regulations and taxation. It does not mean they are formally free from regulation or taxation but that they choose to conceal their economic activities and count on impunity due to the small scale of activities and large number of market participants. Such market participants are also part of the sharing economy despite being borderline P2P.

The P2P infrastructure is often utilized by corporations and companies which act in a manner similar to other participants and aim to profit from the new business model. There is a myriad of companies using P2P auction sites (in principle)as a main or supplementary sales channel. Such companies are often very similar to other providers and such a mode of transaction is referred to as 'business to peer' (B2P). It is different from the regular B2C (business to customer) because of the sales channel. Such companies, if engaging in asset rentals, are also included here as a part of the sharing economy.

OLIGOPOLISTIC OR MONOPOLISTIC INTERMEDIARY

The sharing economy was enabled by technological advances based on the Internet. In particular, the rise of offer aggregation platforms that allow participants to introduce their offers and search for them. They drastically reduce search costs. Here we observe clear advantage to scale as more offers translate into greater selection and availability, not to mention convenience as a one stop vendor. Therefore, a given submarket of a sharing economy is usually dominated by few or even one intermediary that earned the status by either early entry or even creating the business model. The competition has a hard time to enter due to the inability to take over sufficient portion of business, so that they become both profitable and attractive to participants. The price competition usually does not work and success stories of late entrants are based mostly on user interface innovation or on specializing in a certain niche.

These intermediaries are often corporations that profit the most from the sharing economy. However, there is tendency for open access platforms that are operated and maintained by market participants to emerge. Despite the cost, the existence of an intermediary has its benefits as well. Firstly, platform operators tend to charge far less than traditional intermediaries[1].

Intermediaries are interested in a broad geographical range of operation and high availability, which in turn translates into higher turnover and hence profit. Therefore, intermediaries often help establish the presence of a shared economy in new regions. There is a well-known case of Uber, which encourages participants from other geographical locations to temporarily move into locations in which the service is starting. The company wants to provide enough drivers at the start so that the system provide sufficient availability for customers. Uber also plans on selling or renting cars to drivers willing to participate in the system to increase the range and density of providers.

PROFIT-BASED AND CAPITALISTIC NATURE

Despite many misunderstandings, a sharing economy is an example of a pure profit-based, capitalistic economy in its earliest form. The word 'sharing' may imply some kind of charity but this is clearly not the case. A sharing economy is based on individual entrepreneurship often ignoring most regulation and taxation and as such

[1] Jane Gross (2008) "Home Health Aides: What They Make, What They Cost," *New York Times*, December 30, http://newoldage.blogs.nytimes.com/2008/12/30/home-health-aides-what-they-make-what-they-cost/

resembles the structure of the 19th century economy. At the same time it is based on capital accumulated by households that so far was mostly idle or underused. A sharing economy is, in many cases, undermining the position of corporations and, as such, might be seen as anti-corporate but definitely not anti-capitalistic. A not-for-profit sharing economy surely exist but is marginal in comparison to the for-profit part.

SELF-CONTROL AND SELF-REGULATION

A sharing economy often spans over many borders or even continents. Therefore, local regulation in many cases cannot be applied. Instead, participants follow the rules that are usually set by a dominating intermediary which are adjusted to reflect changes in the market or are forced by some influential states. The range of power of the intermediary varies: in some cases it influences the terms of transactions (Uber), while sometimes not (Lyft) – even in the same niche. In the event the market operates without an intermediary, the regulations are set jointly by users.

User-based ratings are an important element of self-regulation. Ratings usually go both ways, meaning that both the supplier and customers are rated. This gives a basis for reputation building allowing for relatively safe transactions that often require sizable trust between individuals who have never met in person. This creates a mild barrier of entry for new players that is usually overcome by price competition at the start. The reputation is not shared between platforms at this point so switching platforms is costly for provides and hence makes entry even harder. There are, however, attempts to aggregate ratings of a single user regardless of platform[2].

A rating system and full freedom in choosing transaction partners cause some problems. For example, cases of racial profiling have been reported. It seems that Afro-American users of Airbnb receive on average lower ratings on their room rentals and have a harder time renting a room[3]. This is, however, quite difficult to prove in individual cases and therefore is nearly impossible to eradicate as this policy is the result of general user sentiment and not a platform provider policy. It is also challenging to imagine a policy which could effectively enforce equal treatment.

> CHEAP ALTERNATIVES EXIST BUT WE DO NOT PICK THEM DUE TO A HIGH SEARCH COST, SAFETY AND RELIABILITY ISSUES

THE SHARING ECONOMY AS A DISRUPTIVE FORCE: MARKET PERSPECTIVE

The sharing economy is a technological innovation that is changing the face of market for asset lending. The traditional approach of a lending economy

[2] Juliet Schor (2006) *Debating sharing economy*, http://www.geo.coop/sites/default/files/schor_debating_the_sharing_economy.pdf

[3] Hardin, B., Luca, M. (2014) *Digital Discrimination: The Case of Airbnb*, Harvard Business School Working Papers.

bases its operation on near constant and reliable availability. This allows market participants to earn a premium over the value of the invested capital. In other words, we were willing to pay quite a lot for a room at a hotel (as compared to monthly rent for an apartment in a given city) mostly because we knew the hotel is there and is offering a room on a constant basis. We used taxi services because we could be quite sure that when called we will get a car within a reasonable time and probably will not get robbed by the driver. The same goes for many other services like car rentals, bike rentals etc. Cheap alternatives exist but we do not pick them due to a high search cost, safety and reliability issues.

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AGGREGATING PORTALS ARE RESHAPING THE MARKET

Prices are high because vendors have to maintain a large capital base that is designed to meet a near peak demand and hence is underutilized for most of the time. The prices are also kept up by the entry barriers for competition –again arising mostly from high capital requirements. Therefore, the supply side of asset lending was, in most cases, limited to large corporations due to their access to capital, extensive distribution (essential before the Internet) and reputation.

Aggregating portals are reshaping the market. A single citizen with a spare room cannot offer availability due to small capacity. Therefore, the spare room will, in most cases, remain empty which is somewhat ironic. For a regular person, the cost of advertising, promotion or even simple bookkeeping is often a sufficient deterrent. This is why one person is not effective competition for hotels and, in most cases, will not even attempt to enter the market.

However, if we aggregate several hundreds of such individuals we are able offer a room base larger than most hotels with much larger price and standard range with a much greater geographical coverage. The problem of reputation is alleviated by the reference system known from other P2P markets. A vendor with dozens of positive feedback is usually considered trustworthy. This offer applies to most B2C market for accommodation and is usually far superior to what hotels may offer, especially with respect to price.

The sharing economy started its expansion with the rental of relatively homogenous assets broadly held and underutilized by the citizens. These are rooms, means of transportation (mostly cars) and money. Due to a comparative advantage on many levels – including minimal regulation and taxation, participants of a sharing economy are quickly eroding the market for incumbent players. This often leads to protests, especially in the case of vocal groups such as taxi drivers which start with public demonstration, roadblocks and sometimes end with sheer violence against new entrants on their territory.

THE SHARING ECONOMY AS A DISRUPTIVE FORCE: GOVERNMENTS' PERSPECTIVE

As noted before, a sharing economy generates tension between incumbent market players and new entrants via sharing economy channels. It creates various effects undesirable from the governments' perspective:

> THE SHARING ECONOMY ALLOWED THE VACANCY RATE FOR SHORT-TERM RENTALS TO BE DECREASED AND THEREFORE MANY OWNERS DECIDED TO SWITCH FROM LONG-TERM TO SHORT-TERM RENTALS. THIS CAUSED A SHORTAGE OF APARTMENTS FOR CITIZENS AND PRICE HIKES

SOCIAL UNREST

Groups threatened by new entrants are at times vocal in their disappointment especially if they operate in a highly regulated environment that so far guaranteed their prosperity. So far, the most vocal group have been taxi drivers. Their protests can paralyze a city or even lead to physical assaults on competing drivers and their cars. The frustration of incumbents is understandable as they often operate in a regulation-heavy and taxed environment and hence are unable to compete with entrepreneurs unburdened with such issues. The reaction of the state ranges from the minor harassment of sharing economy players (such as more frequent tax authorities controls), up to an outright ban as in the case of Uber in Hungary.

There is also the fear that a sharing economy will substitute stable paying jobs for uncertain ones. This shift in the workplace actually predates the sharing economy. The number of blue-collar jobs dropped as the factories from the developed world were outsourced to cheaper regions. We observe income stagnation in the middle class group in the most developed countries which is the price we pay for decreasing inequality worldwide[4]. The debate is whether a sharing economy will deepen the problem. So far, such a link has not been identified[5].

UNEXPECTED ASSET UTILIZATION SHIFTS

Static assets utilization patterns may shift in quite unexpected manners towards more efficient solutions – which translates into

[4] Milanovic, B. (2016) *Global Inequality: A New Approach for the Age of Globalization*.

[5] Bernhardt, A. (2014) *Labor standards and the reorganization of work: gaps in data and research*.

higher returns for owners. At the same time, benefactors of the *status quo* are facing price increases, which may also cause social problems. The best known case concerns apartment rentals in large cities.

For an owner of an apartment, long-term rental was an optimal solution up to now. The revenue per day was much smaller than in the case of short-term rentals but at the same time it was much more reliable. The sharing economy allowed the vacancy rate for short-term rentals to be decreased and therefore many owners decided to switch from long-term to short-term rentals. This caused a shortage of apartments for citizens and price hikes. Such a phenomenon was observed in the case of Berlin, where authorities severely limited the operations of Airbnb (a short-term rental platform) e.g. by allowing only spare rooms to be rented, or in Paris, where inspectors were set to harass Airbnb providers with inspections. Of course, we may doubt the efficiency of such regulations as they can be dealt away with one way or another. On the other hand, Airbnb provides evidence that its operations are actually beneficial to the city as tourists stay longer and spend more (estimated EUR 100 million in 2013)[6].

REGULATION AND TAXATION RESISTANCE

The P2P market is very resilient to regulation and taxation. It is somewhat difficult to cover and control due to numerous participants. Moreover, in most of the cases it is challenging to distinguish e.g. carpooling that is encouraged from for-profit operations. How often does a person need to share his or her car in order to be considered an entrepreneur? This is a blurry line and it seems unlikely that the situation will change anytime soon. Participants are sometimes singled out and forced to start a company (and pay any taxes due) but these cases are rare due to the time and cost involved. As the scale of operation of each participant is small, the prosecution is unlikely and therefore not considered an issue by the provider.

This creates a large area of business operations that is outside the scope of both regulation and taxation creating unfair competition. As an effect, incumbent tax-paying entities are pushed out of the market so the budget impact is twice as hard. Moreover, dominating intermediaries in most cases pay zero taxes in the country sharing economy participants operate (or anywhere else, for that matter) and are mostly out of regulatory reach too. It seems mostly unfair as the intermediary captures a significant portion of profit from the business activities in a given country. However, this problem is not isolated to the sharing economy as tax optimization in multinational corporations concerns all industries. Here it may be limited by eliminating the intermediary. Yet, that happens due to market participants activities usually in case the intermediary is too greedy and demands too high a fee. Such an action is therefore not aimed at tax revenue maximization and cannot be induced by the state. At the same time, a state-owned intermediary might be an option but is unlikely to be successful.

What we observe in general are local regulatory skirmishes of sharing economy platforms and state and local authorities. The main point of disagreement is the decision whether the platform is merely an intermediary or an employee that should take responsibility for wages and activities of its unconventional employees. Governments tried to force the latter interpretation but mostly failed. Despite several visible cases as the aforementioned cases of Hungary or Berlin, the regulation

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[6] http://web.archive.org/web/20150322021438/http://publicpolicy.airbnb.com:80/wp-content/uploads/2013/09/Berlin-Airbnb-economic-impact-study.pdf

mainly seems to turn into a friendly[7] sharing economy as restrictions are alleviated (e.g. zoning or minimum rent time). Providers are usually open to mild concessions in exchange for freedom in operations.

SHARING ECONOMY: MAIN SECTORS

I Transportation

With number of cars per household exceeding two in many developed countries, it seems that means of transportation would be the most underutilized assets. As far as transportation goes, a sharing economy can be divided into several categories:

Pure Rental

This is the purest form of a sharing economy and at the same time the least developed one. The reason is that people are often unwilling to share a car (which for most people is one of the most expensive assets they possess) with a complete stranger unsupervised. Still, such a market exists and gains traction as sharing platforms try to alleviate the problem by insurance. For example, Turo is offering a USD 1 million insurance policy for the rented car. As of now there is no single worldwide platform that dominates global markets. In most cases each country or region has its own local player. The largest company in Europe is Divy that operates in France and Germany. The business model is sometimes imitated by companies e.g. Zipcar (subsidiary of Avis) but they offer a fleet of their own cars and hence are not a part of sharing economy even as B2P.

Other niches of transportation rental are also present. Bike rentals are the most prominent ones with companies like SPinlister or AirDonkey. We may also expect new and larger means of transportation to be rented out in the future – including airplanes, boats or yachts. These innovations are yet to come but we may be fairly certain they are on their way.

[7] http://qz.com/589041/uber-pulled-off-a-spectacular-political-coup-and-hardly-anyone-noticed/

Carpooling

Driving a car is costly and causes externalities such as pollution and congestion. Therefore carpooling was encouraged long before the Internet, especially during wartime[8]. The rise of the Internet helped smooth the process. The best known carpooling platform is Blablacar, which was founded in 2006 as one of the earliest sharing platforms. At the beginning, the P2P section was free and B2B (carpooling for employees) was supposed to bring in money. However, this plan did not work and the B2B part was scrapped and the company started to monetize on the P2P part of its operations by taking a cut over what a driver requires (in some countries it is still free of charge). Drivers are not riding for profit so the money they ask should reasonably cover part of the expenses. Due to its non-profit nature, Blablacar is much less harassed by authorities than the for-profit Uber. Blablacar limits the information it provides – so far we know that the total distance traveled with the service is over 5 billion kilometers and it generates about a EUR 250 million savings for drivers every year[9]. It is also the only type of sharing economy sector that has a proven track record in improving the condition of the natural environment as it cuts greenhouse gases emissions[10].

[8] http://www.shareable.net/blog/the-history-of-carpooling-from-jitneys-to-ridesharing

[9] http://www.wired.co.uk/article/blablacar

[10] Martin, E. W., Shaheen, S. A. (2010) *Greenhouse Gas Impacts of Car Sharing in North America*, Mineta Trans-

Taxi Service

This sort of economic activity has little to do with asset rental and is therefore borderline sharing economy as the *service* part dominates the *renting* part. The idea is an extension of carpooling where the non-profit restriction is waived. One may, of course, still use it for carpooling but it is mostly used as a means to earn money. There are several platforms offering such services including: Summon, Lyft, Via, Haxi (and several others are now defunct, like Sidecar) but still the best known and the biggest one is Uber, which operates in 66 countries and 492 cities[11].

The dominance of Uber is so strong that other platforms which are dominating local markets (e.g. Haxi in Scandinavia) have teamed up to ensure their survival.

In 2015, Ola Cabs (India), Didi Chuxing (China), Grab (Singapore) and Lyft (USA) created a partnership to keep Uber from dominating their markets (with the exception of Lyft, they are the dominant players in their markets). Irrespective of this, the capitalization of Uber in just six years exceeded the capitalization of traditional companies such as: General Motors, Ford or Herz and Avis. It seems soon the market will go through a round of consolidation and possibly monopolization.

Uber clearly thrives to innovate and expand. It creates a system that raises prices at peak demand so that drivers are drawn to operate during these hours. It also offers differentiated price levels depending on the services rendered: starting with the cheapest UberX, UberXL uses larger cars that can accommodate at least six passengers, UberSelect offers luxury sedans and UberBLACK offers limos. Moreover it is trying to enter into similar markets: Uber Rush is a bike delivery company in New York, Uber Cargo delivers goods via Uber drivers, UberPool is competition for Blablacar. Uber is also researching self-driving cars and financial services for its drivers to allow them to buy a car. Clearly, many of these activities reach far beyond a sharing economy.

II Accommodation

The idea of sharing one's apartment with strangers seemed even more risky than in the case of a car. However, in 2003, Couchsurfing appeared and it allowed using someone else's house. As in the case of carpooling, it was relatively easy to turn the practice into a business model by introducing payment and a commission on top of it. This was performed by Airbnb, which is now the dominating player on the market and its value is estimated at USD 24 billion – more than the Marriott hotel chain[12] with over 2 million properties in 191 countries listed and over 60 million stays[13]. The runner-up is Wimdu, which offers similar services.

The market is not only limited to humans. DogVacancy offers a chance to rent a place to stay for your pet instead of using a pet hotel. It seems that the market will be branching out into new areas including: garages, safes, parking spots, storage rooms, and private pools. The sky is the limit.

portation Institute Report 09-11,San Jose, CA: Mineta Transportation Institute.

[11] https://www.uber.com/our-story/

[12] The secret match of Airbnb's $24 billion valuation http://www.wsj.com/articles/the-secret-math-of-airbnbs-24-billion-valuation-1434568517

[13] https://airbnb.com/about/about-us

III Other Assets

Many other types of assets are also rented via a sharing economy. In particular, assets which are expensive and rarely used such as sports equipment (surfboards, snowboards) via Spinlister. The scale is, however, still relatively small.

> IN TIME, SOCIETIES WILL UNDERSTAND THAT THE SHIP OF LIFELONG EMPLOYMENT WITH BENEFITS HAS SAILED

THE SHARING ECONOMY: OTHER PLAYERS

The sharing economy attracts other players as well. There are constant entrants who try to become new intermediaries as the benefits to be reaped are huge. Most of them fail miserably or are taken over (as of now out of forty five P2P platforms reviewed by Collaborative Consumption in period 2010-2014 only nine are still in operation)[14] but there are companies trying to earn money on such attempts – for example as the Share Engine which helps create P2P sharing platforms.

There is also a growing platform of organizations supporting and researching the sharing economy. These include:

- OuiShare which strives to create an international network of collaborators;
- *Shareable* – a leading online magazine about sharing the economy;
- The European Sharing Economy Coalition

and a multitude of local ones like NASE, ShareNL and others.

WHAT NEXT?

When deciding about a regulatory future of the sharing economy we have to take a broader economic context into consideration. Traditional long term employment is, in most cases, a thing of the past for a majority of the society. It started with the de-industrialization and outsourcing to cheaper countries. It resulted in an amazing reduction of economic inequality worldwide but created tensions in developed countries. Therefore, these changes are resisted by the society and are politically hard to accept. They are also disliked by the state due to a decreased traditional tax base and troubles in funding the welfare state. Decreasing worker protection is thus avoided but it is often necessary even at a high political cost – the case of France is the best recent example. However, in time, societies will understand that the ship of lifelong employment with benefits has sailed. A sharing economy can both deepen the problem and help to alleviate it.

On the one hand, it tends to decrease the number of stable jobs in industries affected. On the other, it allows many currently unemployed people to make a living. In fact, for many individuals it becomes the main source of income and they rearrange their lives to accommodate chances

[14] http://www.collaborativeconsumption.com/2014/12/18/failure-mapping/

provided by the sharing economy[15]. In fact they become entrepreneurs even if they try to avoid the formal side of such a decision. This, in turn, creates a situation in which there is an uneven ground of competition for various entities. There are several possible ways of tackling this problem.

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BANNING CONTROLLABLE ENTITIES DOES NOT SEEM LIKE THE BEST IDEA AS IT WILL TURN ENTIRE MARKETS INTO A SHADOW ECONOMY

The first one is the outright ban of the sharing economy. This approach was used in many places worldwide including Germany and Hungary and some regions of the US[16]. However, there are several problems related to such a decision. Firstly, it completely removes all benefits of a sharing economy for the citizens. This may even lead to organized protests of people who would benefit from introducing it and we have seen such cases in the cities where Uber was banned e.g. in Quebec or Sao Paolo[17]. Secondly, a current centralized P2P platform might be easy to ban but regulatory pressure will bring technological solutions. In the early days of file sharing, it was enough to force companies such as Napster to stop illegal activities. Over time, file sharing evolved into torrent networks which basically have no central point and therefore they are impossible to destroy. It is easy to imagine a similar technology for any sharing economy submarket. This underground sharing economy will eventually appear for various reasons including further avoidance of taxation and regulation, limitation of intermediary fees and ideology but it is in the best interest of a state to make it a marginal phenomenon. Therefore, banning controllable entities does not seem like the best idea as it will turn entire markets into a shadow economy.

The second approach assumes that all providers in a sharing economy must be registered companies. This is basically bringing the standards of a regular economy into a sharing economy. Clearly, this is a better idea than the previous one but it also has its drawbacks. The biggest one is that it eliminates all casual users from the market as the cost of running the company due to regulations in most European countries is a successful deterrent for most small-scale operations[18]. We

[15] http://www.blogtrepreneur.com/how-to-make-a-career-out-of-airbnb/

[16] http://www.reuters.com/article/us-uber-hungary-exit-idUSKCN0ZT0RS http://www.bbc.com/news/technology-31942997 http://www.ktva.com/uber-signs-agreement-to-stop-operating-pay-settlement-to-alaska-808/ http://www.reviewjournal.com/news/nevada/uber-temporarily-suspends-operations-nevada

[17] http://www.cbc.ca/news/canada/montreal/uber-quebec-protest-government-ride-hailing-taxi-1.3559167 http://www.euronews.com/2015/07/05/pro-uber-protests-in-sao-paolo-after-city-ban

[18] Chittenden, F., Kauser, S. and Poutziouris, P. (2002). *Regulatory burdens of small business: A literature review*. SBS Research Directorate.

have to bear in mind that this will affect the poorest fraction of providers which is not socially acceptable. These are the people who may augment their budgets with the extra cash from renting out their assets.

The third (and preferable) approach is to create a set of super simple rules for occasional entrepreneurs. These are people who engage in the simplest economic activities (not necessarily limited to a sharing economy) based on renting out their skills or assets but who cannot legalize their activities due to a high cost. Limiting such an activity seems pointless under the current conditions (or under any conditions for that matter). The rules should be minimal – including taxation. In particular, in the case of a sharing economy the turnover tax seems feasible as the data about transactions should be obtainable from intermediaries as a condition for operation in a given country or in the EU in general. The tax could be even collected and paid by the intermediaries themselves. This way it would be very simple for participants and very difficult to avoid. The success of such an approach is clearly visible in the case of a capital gains tax that is often collected by banks without the intervention of clients.

The tax rate should be set in such a way that it would be beneficial for participants to start a regular business at a certain scale. Therefore, it should be effectively higher than the regular income tax. This approach would level the playing field for regular companies and occasional providers.

This system relies on the cooperation of intermediaries and hence diffused P2P networks would be much harder to control. This, however, is the problem there is no need to tackle it before it arises.

CONCLUSIONS

It seems that in many industries the times of large corporations are over and along with them stable jobs are a thing of the past. We see the resurgence of entrepreneurship in the simplest form that was dominant for ages before the industrial revolution in the form of local entrepreneurs that serve local needs with minimal outside help. This includes a sharing economy's local rental companies no longer overwhelmed by large corporations. A large capital base is often no longer needed and technology removes barriers of entry in many cases. People who decided or were forced to switch to self-employment decide on the parameters of their work on their own but at the same time are devoid of benefits and security. They also find it is much easier to escape regulation and taxation. This is not easy to accept by many and it created a lot of political tension in developed countries as people are used to stable, life-long employment. These phenomena started long before the sharing economy mostly in the form of outsourcing production and many services to poorer countries and most likely will continue long after it becomes business as usual.

A sharing economy is a new disruptive technology which is now reshaping the way we work and consume. It allows many to increase their income by renting underutilized assets. But on the other side, traditional businesses are threatened due to uneven competition terms. It is up to regulators to set a framework which is both fair and captures the benefits of a sharing economy.

An oppressive approach will most likely fail as the economic incentives for a sharing economy are large. It can be expected that if current platforms are not allowed to operate, then decentralized

P2P networks will emerge and these are almost impossible to control or shut off. At this point, any attempt at regulation or taxation is doomed to fail. The best example is the futile war with torrent file sharing networks that operate in a similar manner.

The current architecture of the solution that relies on well-defined central intermediary is advantageous. It gives the governments a chance to introduce regulation and taxation and so far these platforms proved to comply with reasonable proposals. Still, heavy regulation or taxation is not an option even if introduced together with the intermediaries as they would lose clients that move to less regulated venues. Moreover, the burden of calculation and paying the taxes could be switched on the platforms themselves in exchange for the right to operate in a given country. Differentiating tax rates between various activities would also be quite easy. At the same time, regular companies using P2P channels (B2P) could be entitled to a tax refund. This would level the playing field for various entities and if calibrated properly, it would also encourage to transform from occasional provider into a company at a certain scale of operations. Therefore, with a responsible policy, we could get the best of both worlds. ●

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WITH
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TOMASZ
KASPROWICZ

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Ride-Sharing as the Ultimate Sustainable Alternative to a Traditional Economy

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KALLE
PALLING

Nearly everyone has heard of the concept of a sharing economy and ride-sharing by now. From Uber to Didi Chuxing to Lyft there are hundreds of companies that have taken a shot at the new business opportunity. Countries are discussing legalizing this new field, just recently China made a milestone move as the world's largest online car-hailing mar-

> WITH A RATHER RECENT EMERGENCE AS A CREDIBLE ECONOMIC FIELD, SHARING ECONOMY SERVICES ARE NO STRANGER TO CONTROVERSIES

ket by legalizing ride-sharing services. However, this on-demand business model has proven to be transforming more than just the transportation field and its benefits go far beyond boosting brands goodwill through a more sustainable transportation method. So what is the small nation of Estonia doing to be considered a pioneer in this new business field? And who really benefits from ride-sharing?

CURRENT MARKET SITUATION

Many countries around the globe have taken a rather hostile stand against sharing economy services. France, Madrid, Jakarta, Brazil have all witnessed violent protests against Uber – one of Silicon Valley's most successful and dominant start-ups that challenges traditional industries and disrupts their business. Governments have pushed back heavily against Airbnb – only this year Berlin banned tourists from renting out apartments via the platform to protect affordable housing, while the current New York City law only allows a permanent resident to sublet their property for less than thirty days.

With a rather recent emergence as a credible economic field, sharing economy services are no stranger to controversies.

> TODAY, WELL OVER 60% OF ALL INTERNET TRAFFIC NOW COMES FROM MOBILE, AND HALF OF THAT IS DRIVEN BY APPS

Supporters claim ride-sharing services to be easy to use, good quality and safe, while opponents argue that government-backed compliance measures are in place for a reason and these illegal services undermine hardworking law-abiding taxi drivers. Concurrently with countries still trying to make sense of this, Estonia decided to embrace the new model by taking progressive steps towards becoming the first country to even consider legalizing ride-sharing.

FOR COMMUTERS, RIDE-SHARING OFFERS A GREAT ADDITION TO PUBLIC TRANSPORTATION OPTIONS. IT IS AFFORDABLE, SUSTAINABLE AND A COMFORTABLE WAY TO MOVE AROUND THE CITY

The sharing economy revolution is really led by public demand. The rise of the app economy has happened incredibly quickly. Today, well over 60% of all Internet traffic now comes from mobile, and half of that is driven by apps. Estonians have proven to be open to new technology, with more than 70% of all phones sold in Estonia being smartphones. The impact of this smartphone-based sharing economy revolution is being felt in almost every industry around the world: from communications and commerce, to banking, entertainment and transportation.

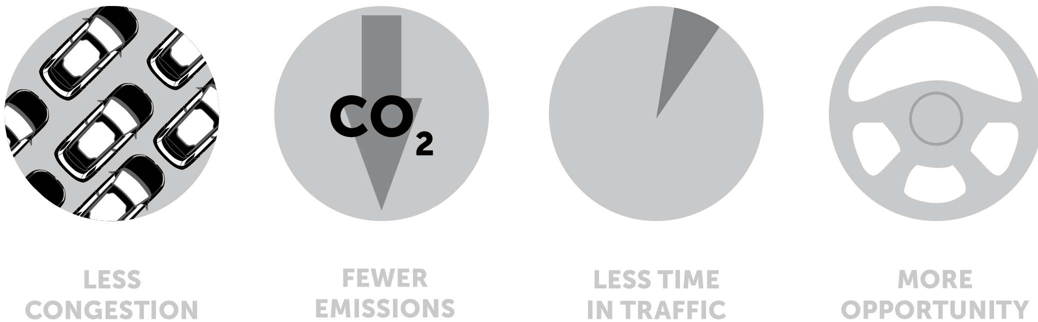
For commuters, ride-sharing offers a great addition to public transportation options. It is affordable, sustainable and a comfortable way to move around the city. People have become more aware of the importance of sustainable transportation models and how these benefit the society – less congested roads, fewer emissions and less time in traffic. A study conducted by Tallinn University on January 2016 found that third of people questioned were willing to share their car with a stranger – a surprising fact for Nordic people who are thought to be predominantly introverted. [See Figure 1.]

Due to the popularity of ride-sharing services in Tallinn, owning a car has become less of a “thing” here. The study by Tallinn University showed that 43% of respondents think that the spread of prearranged services can reduce the desire to buy a second family car. People have realized that a car is a costly thing to own and the same money could go towards their children’s college funds, for example. [See Figure 2.]

While ride-sharing services will probably not make car ownership obsolete, they will definitely help drivers make much better use of their existing cars by sharing their maintenance costs. According to Uber, a whopping 96% of cars are parked, unutilized, taking up valuable urban space at any given time. With the help of technology, a vast amount of data is available to introduce enormous efficiencies that match supply and demand and help drivers become more productive in earning extra money.

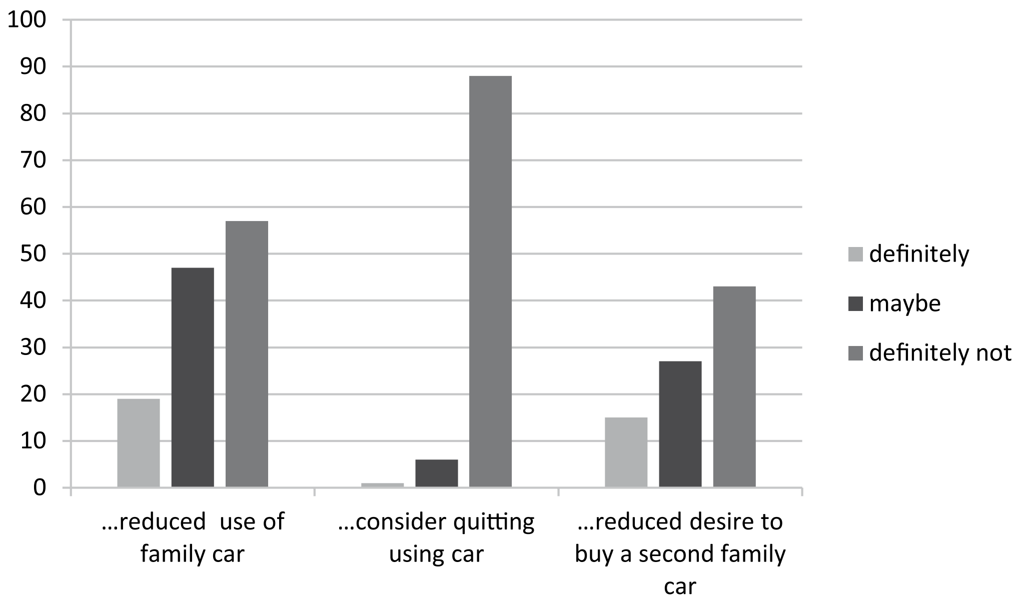
The Institute for Private Finances, an independent part of Swedbank, conducted a study which found that 39% of peo-

Figure 1. Fewer cars in Tallinn means...



Source: Courtesy of Uber

Figure 2. Excepted consequences of a large scale usage of pre-arranged services to car ownership



Source: Courtesy of Tallinn University

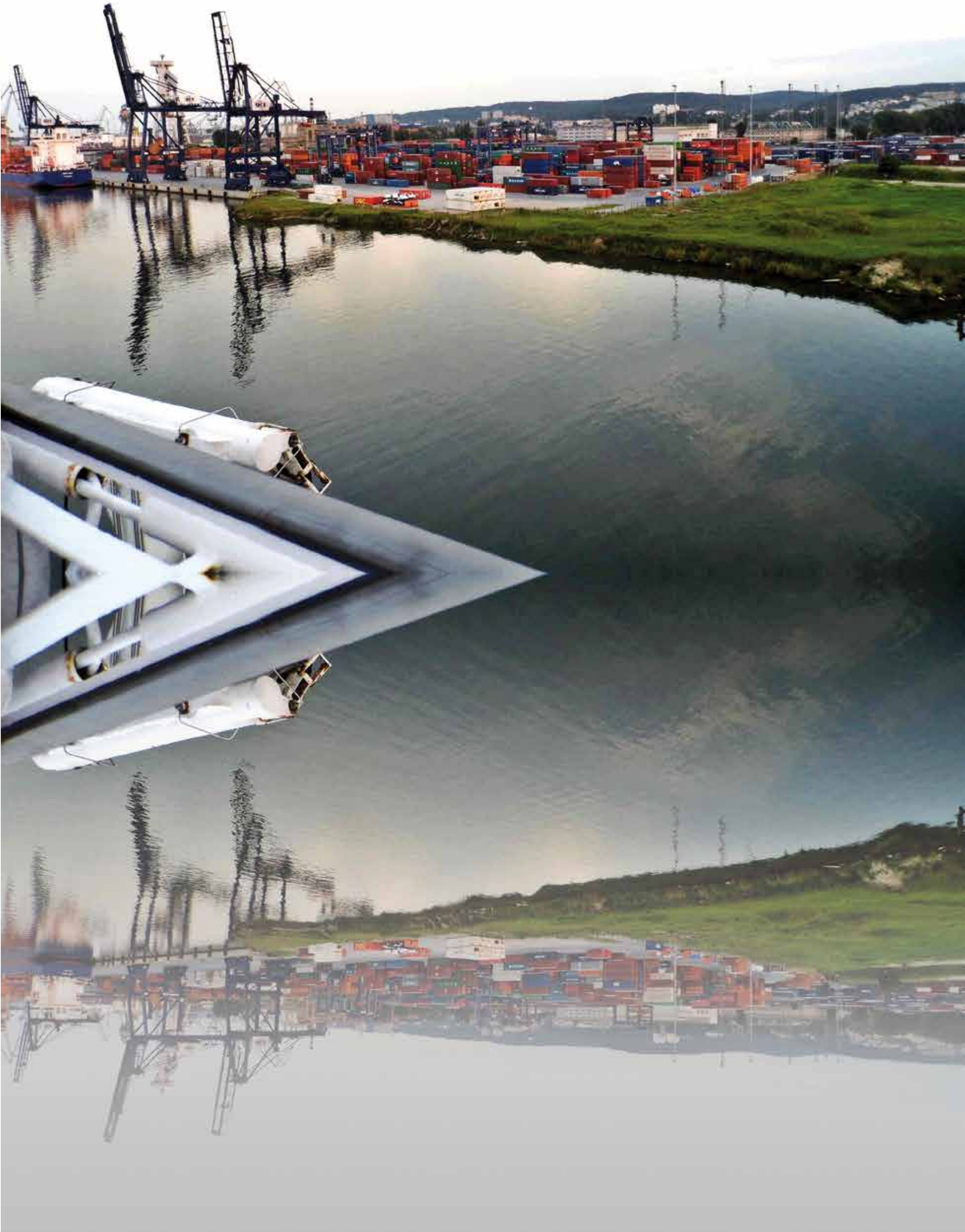
ple living in Estonia have earned additional income on top of their wage work over the course of last year. The head of the institute, Lee Maripuu, commented among other things that young people often operate as freelancers and are eager to try out a relatively new phenomenon – sharing economy services, such as Uber or Airbnb, which shows general support and necessity towards ride-sharing services.

> THE POPULATION OF ESTONIA IS ALSO EXPECTED TO INCREASE VASTLY OVER THE NEXT DECADE – NOT BECAUSE OF POSITIVE POPULATION GROWTH OR FLOOD OF IMMIGRANTS WANTING TO COME TO ESTONIA BUT DUE TO THE E-RESIDENCY PROGRAM

ESTONIA'S E-REVOLUTION

Estonia, a country of 1.3 million people in the Northern part of Europe, is one of the most wired countries in the world. After regaining independence in 1991, the country has been on a path of an e-revolution with the government prioritizing to advance the development of a digital society. All residents have a secure digital identity – e-ID card and Mobile ID – to access online services and sign documents digitally. This can also be used for electronic voting in elections (30.5% of votes were cast electronically during the last parliamentary elections in 2015), for picking up e-prescriptions, e-banking, opening up businesses online and for accessing government databases to check one's medical records, driver's data, taxes etc.

The population of Estonia is also expected to increase vastly over the next decade – not because of positive population growth or flood of immigrants wanting to come to Estonia but due to the e-residency program. The program – launched on December 1, 2014 – allows non-Estonians to get access to Estonian services such as company formation, banking, payment processing, and taxation. While not involving becoming an Estonian or physically being in Estonia, the innovative idea lets people open and run businesses from wherever they are, along with its practical purpose to increase the number of companies in Estonia.



> TECHNOLOGY ALLOWS US TO MAKE USE OF EXISTING RESOURCES IN SMART, FLEXIBLE WAYS. REGULATIONS SHOULD BE JUST AS SMART AND FLEXIBLE—FOCUSED ON OUTCOMES, LIKE SAFETY OR CONSUMER PROTECTION, RATHER THAN THE MEANS BY WHICH THOSE OUTCOMES ARE ACHIEVED

This, of course, is just the beginning. E-residency is being improved as we speak and many new e-initiatives are on the government's 2020 agenda, including building an ultra-fast Internet network and getting 20% of the EU working-age population to use digital signatures by 2020, so our services can expand across borders. For the abovementioned reasons, the idea of Estonia being in the forefront of supporting ride-sharing regulations is not that surprising.

LEGISLATIVE MATTERS

In the spring of 2016, Estonia became the first country in Europe to consider regulating ride-sharing on a state level. A bill introduced by myself would amend the Public Transportation Act to regulate ridesharing. Technology allows us to make use of existing resources in smart, flexible ways. Regulations should be just as smart and flexible—focused on outcomes, like safety or consumer protection, rather than the means by which those outcomes are achieved.

The draft legislation would require all electronic ridesharing platforms to meet certain standards on transparency and safety – for instance, by requiring transparency around how fares are calculated; providing riders with electronic receipts; and displaying a driver's photo and license plate number before the passenger enters a vehicle. At the same time, the legislation also lowers barriers for taxi drivers – for instance, by streamlining some duplicative requirements around training and certification. It also expands taxis' permitted service area, which is currently constricted to an unfoundedly limited territory. And by reinforcing the exclusive right of taxis to pick up passengers on the street by hailing, the legislation encourages fair competition.

When the Act is passed, the term 'pre-arranged services' will be introduced into the Estonian legal language. The sharing economy gives consumers more options, creates flexible opportunities to earn additional income, promotes people to engage in micro-enterprise, and all in all improves the tax receipts of the state sector.

SUMMARY OF THE "PUBLIC TRANSPORTATION ACT DRAFT"

1. The draft act defines ridesharing services as "pre-arranged services". This stands for the carriage of passengers that meets the requirements of the Public Transportation Act with an automobile that has up to nine seats, except occasional services and taxi services.

2. These requirements are defined explicitly in the draft act as the following:

2.1 Prearranged services may be provided only when the provider of prearranged services utilizes an electronic system for prearranged services that meets the requirements set out in section 2.3 of this Act.

2.2. The vehicle used for the provision of prearranged services may not have taxi features[1] or features imitating taxi features. The use of a vehicle that has taxi features or features imitating taxi features for the provision of prearranged services shall be regarded as the provision of taxi services.

2.3 The electronic system for prearranged services must:

1) enable ordering, accepting and monitoring of prearranged services. If the same system enables the ordering of taxi services, the prearranged services and taxi services must be clearly distinguishable to the passenger;

2) display a picture of the driver conducting the prearranged service and the license plate number of the relevant vehicle utilized in providing the prearranged service before a passenger enters the vehicle used for the provision of the prearranged services;

3) enable disclosure of the fare calculation method for the prearranged services and allow the receipt of an estimated fare for prearranged rides before the passenger enters the vehicle used for the provision of the prearranged services;

4) enable the monitoring of the quality of the prearranged services;

5) enable the possibility of making electronic payments between the provider of the prearranged service and passengers;

6) enable the transmitting of a receipt or invoice to the passenger or the client within a reasonable period of time following the completion of a prearranged service. The receipt or invoice shall detail, among others, the name of the provider of the prearranged service, the origin and destination of the trip, the total time and distance of the trip and the total fare paid.

6.1 the receipt or invoice may be transmitted in a format that is at least reproducible in writing.

3. Requirements of the operator of the electronic system for prearranged services:

1) monitor the quality of the prearranged services;

2) implement a system for resolving any complaints made by passengers in relation to a prearranged service;

[1] Taxi features include: taxi roof sign, taximeter and tariff list.

3) retain individual records of a driver conducting a prearranged service and individual trip records of passengers for at least one year from the date each relevant prearranged service was completed;

4) disclose the requirements applied to the providers of the prearranged services, drivers conducting the prearranged services and the vehicles used for provision of prearranged services on its webpage;

5) implement adequate policies and other appropriate mechanisms to ensure the safety, reliability, accessibility and cost-effectiveness of prearranged services.

6) The operator of the electronic system for prearranged services shall not be liable for the performance or obligations arising out of a contract for carriage of the prearranged service, unless the operator of the electronic system for prearranged services is the provider of the prearranged service according to the contract of carriage.

7) The Tax and Customs Board will be given access to the pre-arranged service providers' and electronic system operators' data if there is a tax investigation based on the tax arrangement law. Also, the operators will have to ensure that the data is true and correct.

3.1 Standards for the pre-arranged services operator (requirements to the partner-drivers:)

The operator has to have a good reputation. A reputation is deemed good if the person has not been convicted of a criminal act or has not been convicted of a drunken driving charge or criminal act. The reputation will be deemed good also if the pre-arranged service operator or owner of the service card[2] has been convicted of these legal infractions but if after a due process, it is found that loss of a good reputation would be disproportionate given the specific details of the case.

4. The rest of the draft act addresses requirements to the taxi industry, negotiated into it to facilitate coalition support for draft act:

1) The taxi drivers will no longer be expected to pass a "taxi driver training course" as a legal requirement[3].

2) Self-employed taxi drivers will no longer need to have a taxi license.

3) The taxi drivers/companies will no longer be required by law to service clients only within the confounds of the service area, where the license to operate has been given. Oversight and enforcement on this has been nil in Tallinn anyway.

4) The taxi drivers will no longer be expected to pass a "taxi driver training course" as a legal requirement[4]. This will also save drivers some money as the courses are paid courses for which they have to pay out of pocket.

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[2] This applies to taxi drivers.

[3] This was picked up from the legislators' discussions with us on how Taxify and Uber do their onboarding processes and as they understood that, in fact, the requirements that the pre-arranged service companies have internally are higher because of market forces and not because of regulatory requirements, then they asked us to draft the same solution for the taxi industry.

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> IN THE OPINION OF THE INITIATORS OF THE BILL, THE CURRENT PUBLIC TRANSPORT ACT IS NOT IN CONFORMITY WITH THE NEW DIGITAL SERVICES THAT FACILITATE URBAN MOBILITY

5) They will also no longer have to have a certificate of having passed that course, which will also save them some money, as this is also currently paid for out of pocket.

The rest of the requirements (insurance, car technical requirements) that technically also regard Partner Drivers would come from existing acts that are applied to all car owners and drivers.

TIMELINE OF LEGALIZATION

On April 12, 2016, the Economic Affairs Committee of the Riigikogu (Parliament of Estonia) decided by consensus to send the bill regulating ridesharing services to the first reading at the plenary sitting of the Riigikogu on April 19. The members of the Committee supported the legalization of on-demand ridesharing, but as it is the first bill in the area of a sharing economy, it was decided to continue discussing the principles of the bill and to be open to proposals for amendments.

The Committee reached the position that the law should make a distinction between *professional taxi drivers* and the *drivers providing ridesharing services*, and differentiate their rights and obligations. The possibility of establishing a simpler form of economic activity for ridesharers, e.g. a micro-undertaking, or amending the regulation on self-employed persons in the Commercial Code was also considered. The Bill amending the Public Transport Act, which would allow the provision of on-demand ride sourcing services and the simplification of certain requirements for taxi service, passed the first reading in the Riigikogu on April 19.

The aim of the Bill is to ensure security and reliability of on-demand ride sourcing services. For that, the Bill provides for the establishment of the relevant minimum requirements for providers of on-demand ride sourcing services and for an electronic on-demand ride sourcing system. Also, in the drafting of the Bill, the fact that on-demand ride sourcing should take place as far as possible without interference from the state, and according to market conditions has been taken into account. In the opinion of the initiators of the Bill, the current Public Transport Act is not in conformity with the new digital services that facilitate urban mobility.

Moreover, the Bill will also simplify the requirements for taxi drivers, and delegate responsibility and supervision more to the manager of taxi service. The planned legislative amendments should open a taxi service market to competition that is less weighed down by requirements which have proven extremely problematic to be met and supervised also in practice.

Applications that use mobile communications technology, geo-positioning, and non-cash payments are technologies that are already actively used in the carriage of passengers also in Estonia. At present, Uber and Taxify are the largest operators of the electronic on-demand ride sourcing system in Estonia. In the explanatory memorandum the initiators of the Bill note that, owing to the popularity and wide availability of the

AT PRESENT, UBER AND TAXIFY ARE THE LARGEST OPERATORS OF THE ELECTRONIC ON-DEMAND RIDE SOURCING SYSTEM IN ESTONIA

technological solutions used, it is necessary to update this area of public transport and to ease the current regulation which prohibits the provision of on-demand ride sourcing services. The deadline for motions to amend the Bill was May 10.

The Economic Affairs Committee had a constructive discussion with interest groups on the issues related to the legalization of on-demand ride sourcing on May 16. Chairman of the Committee Toomas Kivimägi said that the positions of the interest groups had become closer, but there were still differences of opinion.

As of August 2016, The Bill is waiting to go for a second reading in the autumn session in the Parliament.

HIGH LEVEL SUPPORT

Support for the Bill, however, comes not just from tech savvy Parliament members but also from high level representatives of Estonia.

Vice President for the Digital Single Market on the European Commission, Andrus Ansip, stated at Tallinn's conference on the sharing economy that the sharing economy is here to stay and we should get used to it (February 2016):

"It's not some sort of fast trend. Our legislators must adapt to it. Our entrepreneurs should look at it's vast potential, and think of it on a global scale not merely be oriented on the community".

Minister of Economic Affairs and Infrastructure, Kristen Michal, stated during EU's Competition Authority Council in Amsterdam (January 2016):

"The sharing economy should be given a chance". [...] "The state should not prohibit comfortable services by new business models. Quite the opposite, we're trying to balance traditional services and guarantee that consumers have alternatives and people have a flexible way to participate in entrepreneurship. We must deal with regulations that foster sharing-economy services today since people's preferences and habits change and great economic potential lies there".

The President of Estonia, Toomas Hendrik Ilves, talked about the risks of falling behind in digital development at a plenary session in Strasbourg, France (January 2016):

"Everyone's complaining about how you get taxes from them [Uber]. In Estonia, Uber has a deal with the tax board and taxes will be forwarded in real time, so there's no problem. Our people go to Western-Europe and see how primitive things are. Sorry, but this is so. Maybe this could be a motivating factor for others".

The fact is, you cannot stop progress. Technology should be perceived as a tool, not a problem. By putting the collaborative economy to work for us, it starts operating toward communal benefit.

TAXING SOLUTIONS

One of the top reasons why countries have been discouraged by ride-sharing services is related to the taxing issues. In an attempt to modernize laws to fit our everyday lives, Estonian lawmakers have also thought about applying tax policies.

> ONE OF THE TOP REASONS WHY COUNTRIES HAVE BEEN DISCOURAGED BY RIDE-SHARING SERVICES IS RELATED TO THE TAXING ISSUES

In October 2015, the Estonian Tax and Customs Board and Uber announced the formation of a joint committee to analyze the potential synergy of Uber's global cashless service experience and EMTA's innovative plans on how to achieve new tax compliance standards in the transport sector. The working group will analyze potential new measures to implement new and efficient taxing tools applicable in the context of the growing size of sharing economy services across Europe.

As a first step, Uber and EMTA will start working jointly on a pilot project: a new tax declaration platform that aims to simplify the process of declaring taxes by Uber driver partners. The first round of results is expected by the end of 2016. The Uber and EMTA tax conversation is a part of a wider proactive engagement by both sides that will be designed to further the Estonian government's e-Estonia agenda and Uber's innovative digital platform, and address the regulatory challenges of the digital age.

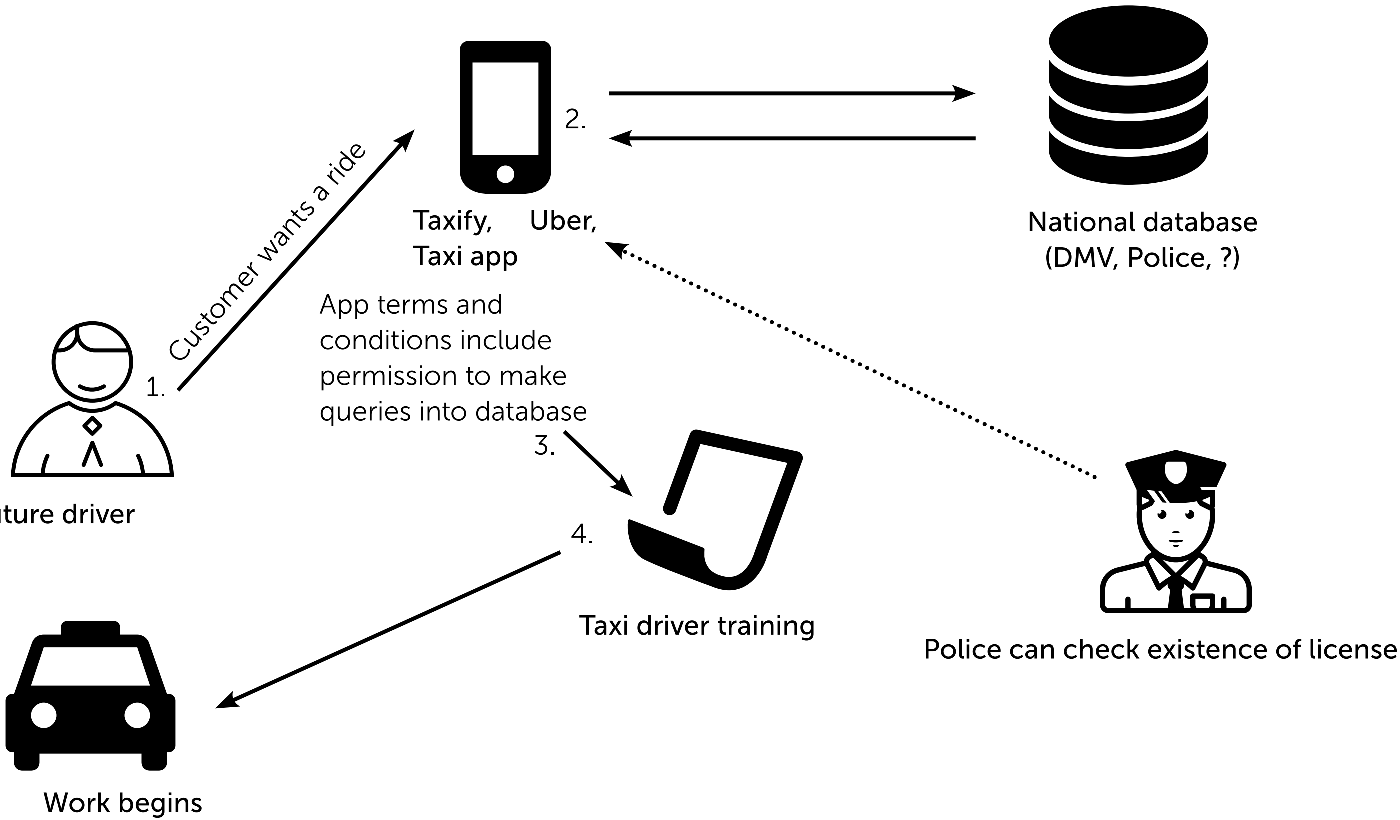
TAX AND CUSTOMS BOARD'S VISION OF THE FUTURE TECHNICAL SOLUTION

1. Potential driver-partners would be first identified through the app (mobile ID).

2. App terms and conditions include permission to make database queries about the driver and the car (driving license validity, car's technical compliance, driver's background check).

3. If conditions are met, the app owner (Uber, Taxify) guarantees appropriate training and that the driver will meet conditions

Figure 3. Model developed by Estonian Tax and Customs Board



Source: Estonian Tax and Customs Board

of service (e.g. price is always visible in the app at the time of hailing the ride via the app and during the ride).

4. When the training is completed, the driver can start working, and the database will automatically register the "license to drive passengers".

5. Surveillance institutions (the police as well as private citizens) can check license through public query into databases, offered by app owners.

6. As an opportunity, the state will offer a joint platform which is fed by all the apps, so that checking the license is more customer-friendly and that the taxi driver only has to apply once[5]. [See Figure 3. and 4.]

> ESTONIA BECAME A PIONEER BY BEING THE FIRST EU COUNTRY TO CONSIDER LEGALIZING RIDE-SHARING AND IS TAKING ENORMOUS STEPS ON A GOVERNMENT LEVEL TO GETTING THINGS DONE AS SMOOTHLY AS POSSIBLE

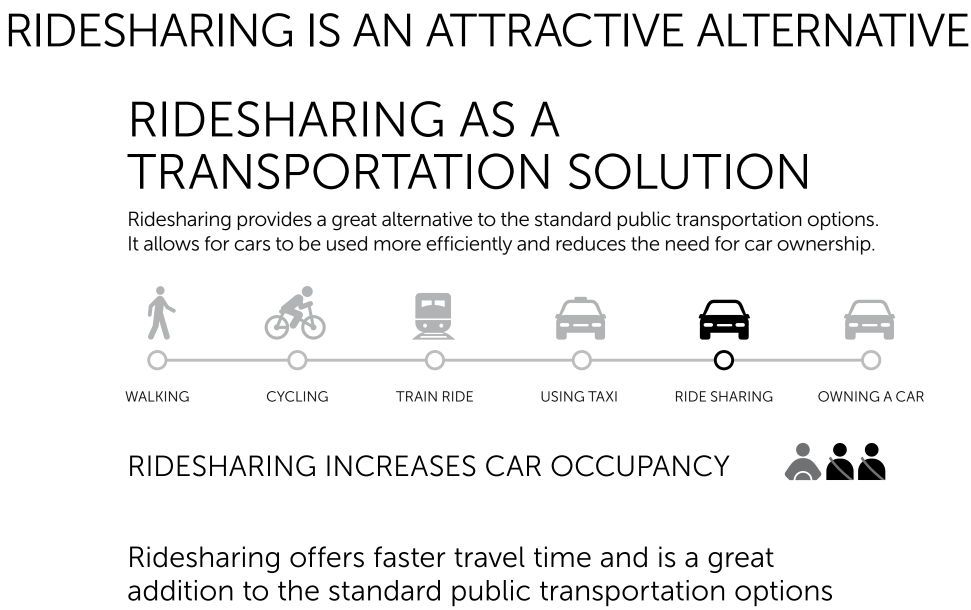
The approach Estonia has taken is based on principles of the free market and celebrates new technology, which is breaking down old barriers by making safe and affordable personal transportation available for more people. Technology allows us to reduce state regulations, because the dialogue between the service provider and end-client is direct. And while personal transportation is changing into an affordable option, more and more people in our growing cities are considering dropping the idea of owning an personal car.

CONCLUSIONS

Entrepreneurship is the engine of economy and by now, many other countries have understood the importance of this sector and are having discussions on legalizing the service. The European Commission recently introduced its guidelines to member states on how to regulate new business models like Uber or Airbnb. It stated that banning these new business models

[5] For example, when you have already gone through the training at Uber, you will not have to repeat the same training using the other apps.

Figure 4. Why sharing economy matters for Estonia and who really benefits from it?



Source: Courtesy of Uber

should be the last resort and countries should work towards creating a regulatory environment for them.

Estonia became a pioneer by being the first EU country to consider legalizing ride-sharing and is taking enormous steps on a government level to getting things done as smoothly as possible.

The benefits of legalizing ride-sharing affect all participants. For commuters, ride-sharing offers a great addition to public transportation options. It is an affordable, sustainable and comfortable way to move around the city. It also helps drivers make much better use of their existing cars whereas the state benefits from earning taxes from all sharing economy services.

The best part is that as far as sharing economy is concerned, there is still room for growth. The PricewaterhouseCoopers report predicts that the five key sharing sectors (travel, car sharing, finance, staffing, and music and video streaming) have the potential to increase global revenues from roughly USD 15 billion today to around USD 335 billion by 2025. In a corporate driven world where few benefit from the actions of many, the arrival of a collaboration economy should definitely be welcomed by all. ●

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KALLE
PALLING

Member of the Parliament of Estonia, Chairman of the Parliament's European Union Affairs Committee, Member of Reform Party

Change the Legislation, Not the Sharing Economy: The Czech Perspective

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ALEŠ
ROD

The sharing economy is currently a very trendy term. Politicians, bureaucrats, journalists, traditional market players organized in guild associations – all of these agents have recently been faced with the question: What exactly does a sharing economy mean for my own well-being? And so, for politicians, a sharing economy is a new way of interacting with their voters, but also a playground for collaboration with business interest groups. Bureaucrats are faced with a new regulative challenge. For journalists, a sharing economy means a new area for future stories and criticism. Guild associations experience the risk of losing their positions. But for all of them, a sharing economy is something new, unknown and potentially dangerous. This, however, is an absolutely wrong interpretation of the term.

> SHARING ECONOMY IS SOMETHING NEW, UNKNOWN AND POTENTIALLY DANGEROUS

A sharing economy represents technological progress in all its purity. It is a new way of collaboration between various agents; an efficient way of transforming an existing network of assets into more economic activity. A sharing economy is not a *thing*, it means *thinking*! People find out they can transform their old behavior patterns into new ways of doing things on platforms which enable individuals to satisfy more needs, and therefore create more wealth. Paradoxically, the two most obvious groups of agents within the scope of a sharing economy have not been mentioned in the very first paragraph of this article – namely, suppliers and their customers. Nevertheless, these are the subjects who have no difficulty analyzing the meaning of the term itself. Actually, they do much more than just define it – they use it! And they increase their utility in various sharing economy markets.

If people understood the term 'sharing economy' correctly (as *thinking*, not as a *thing*), they should be open to the discussion that it needs a new legislative environment. No one can prevent people from consuming smart economic goods for lower prices. It would be simply wasteful and, moreover, banning such solutions would be a strong incentive for moving the *sharing* economy into the *shadow* economy That is just a fact.

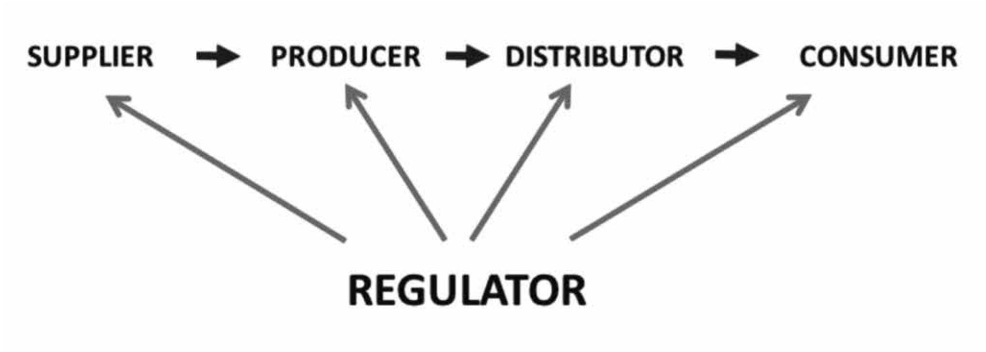
PROBLEMS WITH REGULATION

A standard regulation goes hand in hand with the *prohibitio ordinem*[1] approach, i.e. the approach in which a regulative body sets up rules of the game for all related subjects under the threat of punishment for those who do not respect it. The actual control is conducted by the means of a selective method – everyone knows they could be controlled any time, so they should always respect the existing rules.

Historically, this approach has been the only way of supervising behavior patterns within the society – costs for further (individual) controlling were so excessive that a temptation to cheat was being eliminated

[1] *Prohibition by force*: a government lays down the rules and penalties for violations.

Figure 1: Regulation Prohibitio Ordinem



by very high penalties[2]. Due to the fact that the motivations of cheating subjects to hide these activities are far greater than the motivations of state regulators to invest their effort in uncovering frauds but also because the regulators' capacity to watch and control all subjects and transactions is limited, a probability of the transgressions being revealed decreases regardless of the increasing of the potential punishments. [See Figure 1]

The abovementioned issue mirrors yet another regulative manner of fettering economic behavior. In the selected branches of economy, governments impose such common measures as excise duties, licensing and entry fees, defined ways of accounting and reporting, etc. These measures increase transactions costs for the interaction between supply and demand with significant impact on collective wealth. Let us use a few Econ101 graphs to illustrate the matter.

Consider a market with a good X. Consumers are represented by a descending demand curve[3] and suppliers are represented by an increasing supply curve[4]. The market finds the equilibrium at coordinates X_A (quantity) and P_A (price). As we see, some customers would be willing to pay more money than P_A to satisfy their needs, but they do not have to. The P_A is the market price. Therefore, the G triangle represents consumers' value from market interactions above the amount paid (consumer surplus).

On the other hand, some suppliers are willing to supply good X for lower amounts than P_A, but they do not have to. The P_A is the market price – so the B triangle represents manufacturers' benefits from market interactions (production surplus). Consequently, both B and G triangle illustrate the collective wealth arising from market transactions. [See Figure 2]

Figure 3 demonstrates a situation after regulatory measures have been imposed. The supply curve shifts upward, because manufacturers cannot produce and deliver a certain quantity X at the same costs level

[2] Economics and crime: According to Gary Becker, criminals rationally evaluate the benefits of their crime and the costs such as the probability of apprehension, conviction, and punishment, and their current set of opportunities. Read more in Becker, G. S. (1968), "Crime and punishment: An economic approach" [in]: *The Economic Dimensions of Crime* (pp. 13-68), Palgrave Macmillan UK.

[3] Consumers follow the rule of diminishing marginal utility, i.e. every additional item of good X brings a lower marginal utility to the individual because their needs are more and more satisfied. Therefore, the individual is willing to pay less for every additional item of the X good.

[4] Suppliers follow increasing marginal costs at the production process – for the production of every additional unit of good X, a manufacturer must invest more scarce economic sources, i.e. they require a higher price for every additional item delivered to the market.

Figure 2: Consumer Surplus and Producer Surplus

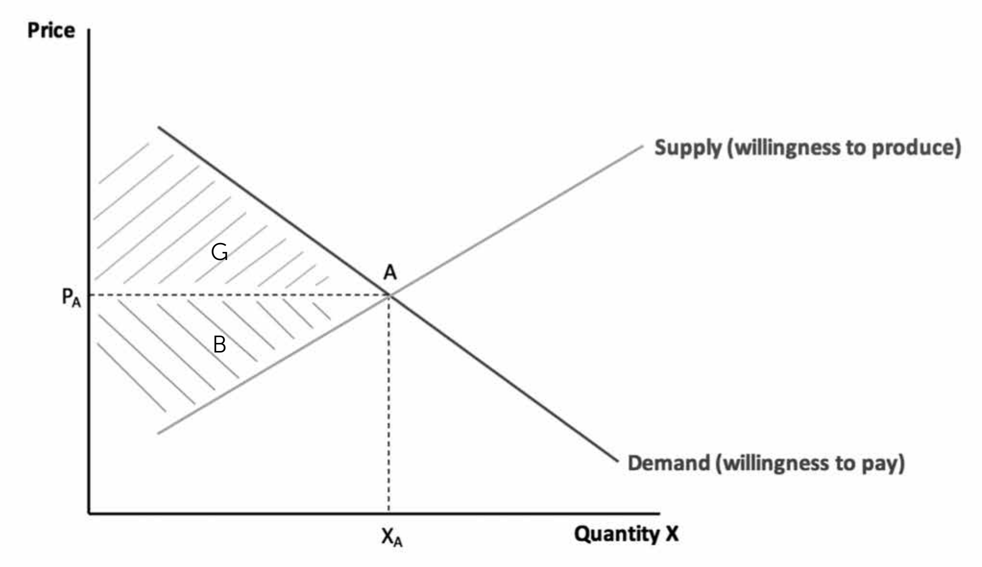
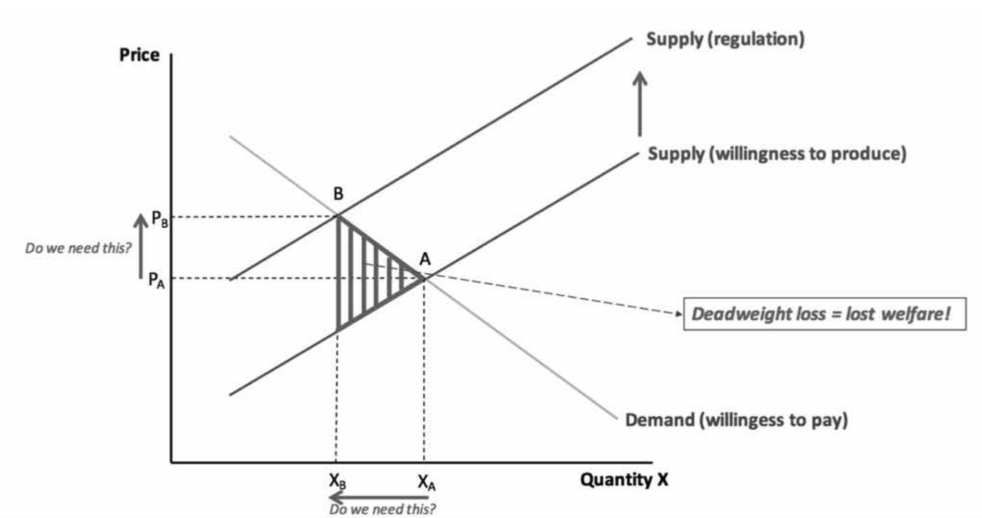


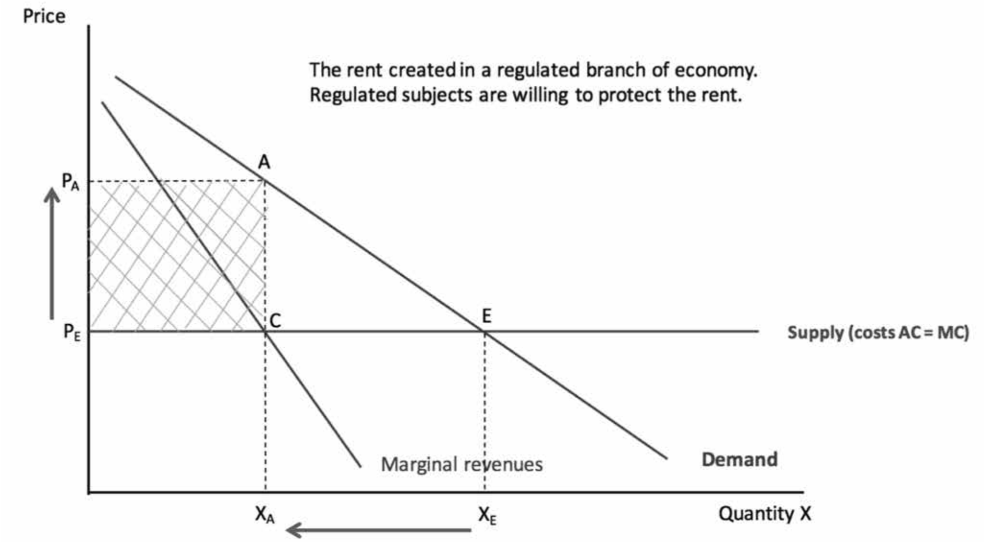
Figure 3: Impact of regulation



– the regulation has increased transaction costs and created barriers for economic interactions between consumers and suppliers. Therefore, a smaller quantity of good X is traded (X_A => X_B) for a higher market price (P_A => P_B). The collective wealth arising from market transactions is significantly lower than in the previous situation (see the triangle deadweight loss). The consumer surplus is lowered by the regulation[5]. [See Figure 3]

[5] The Manufacturer surplus also depends on the form of regulation.

Figure 4: Rent-seeking



As we see, the crucial economic impact is illustrated on both axes – the market distributes less of good X for a higher price, with a significant impact on the utilities of economic agents, regardless of whether good X is food service, transport service, accommodation service or the shared ownership of assets. After the regulation, less economic transactions are completed in the official economy – not only as a part of a sharing economy, but also in general. The point is: Do we consider this deadweight loss as an adequate trade-off for fulfilling regulatory goals? And moreover, for whom is this situation favorable?

RENT-SEEKING IN TRADITIONAL BRANCHES

An answer to the previous questions could be related to the term 'rent-seeking'[6]. It refers to an activity when a subject spends scarce economic resources on creating administrative barriers, which preclude competitors from a substantial part of the market. The *rent* is a rent-seeker's potential profit. Considering this, a rent-seeker does not mind spending costs up to the rent itself. When there are more competitors willing to seek for rent, total rent-seeking costs can even exceed the rent itself[7].

The matter is illustrated on figure 4. Firstly, it shows a market with one company producing good X with constant average costs and decreasing marginal revenues. Although the market equilibrium is at point E (quantity X_E; price P_E), the company maximizes its profit[8] when producing the quan-

[6] The concept was first explained by Gordon Tullock (1967), the term 'rent-seeking' was first used by Anne Krueger (1974).

[7] Example: A city council would like to choose an official provider of taxi services from the City Airport for a 5-year period. This would mean high and stable revenues for the chosen provider. Therefore, taxi providers start to invest their efforts into preparing for a public tender (lawyers, lobbyists, consultants, investments in new cars, etc.) or even to secure unfair conditions (clientelism, corruption). When all the direct and indirect costs spent by providers are added up, it turns out that the sum would be higher than the revenues from the monopoly airport operation.

[8] The golden rule of profit maximization states that a company will aim to produce under the condition that marginal revenues from the last produced good cover

tity X_A and selling it for the price P_A. This behavior leads to the profit illustrated by the rectangle P_E-P_A-C-A in the same figure. [See Figure 4]

The profit, however, also represents the rent. The company knows that the administrative barrier comfortably secures the collection of this rent, so it does not mind spending scarce resources (lobbying, political support, corruption, blackmailing, among others) to keep the supply side of the market (i.e. keep the rent) for itself. However, competitors willing to enter the market must expend adequate resources as a reaction to this rent-seeking activity by its own activities (litigations, studies and analyses, lobbying, PR activities, among others). This spending of scarce resources is very inefficient: the total resources spent by both sides could exceed the rent itself. Economic theory illustrates these inefficiencies by the deadweight loss (a lost part of both consumer and manufacturer surplus) illustrated by the C-E-A triangle.

> SHARING ECONOMY PLATFORMS ARE BASED ON TECHNOLOGICAL INNOVATIONS AND BRING A NEW DIMENSION OF PROVIDING SERVICES INTO THE CLASSIC BRANCHES OF THE ECONOMY

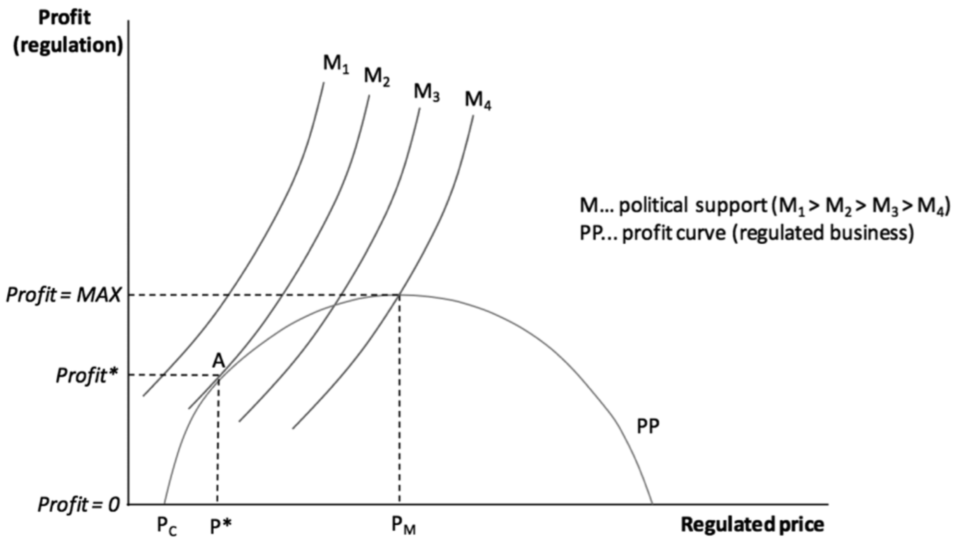
Sharing economy platforms are based on technological innovations and bring a new dimension of providing services into the classic branches of the economy. These branches have gone through decades of a gradual regulation, which – at the end of the day – has prevented competitors from free entry into the market. All these licenses, rules, terms and conditions have created remarkable rents for taxi companies, hotels, car rentals, banks, etc. At present, market agents consider any development as a threat to their stable positions. Changes activate the resistance which is manifested by using various arguments – market balance, iniquity or the necessity to protect consumers are among them. All sharing economy agents face these arguments in favor of keeping the "standard environment" on the market and instead introducing more regulations on platforms such as: UBER, Airbnb, Zonky, ZIPCAR, etc. Which approach is the best? Well, all eyes are pointed on the politicians.

POLITICIANS AND SHARING ECONOMY REGULATION

Needless to say, the role of politicians is crucial as far as the sharing economy is concerned. All interest groups target their arguments precisely at politicians. They determine whether rents would be created and among whom they would be redistributed. Politicians make decisions about regulatory issues and create the leg-

the marginal costs necessary for the production of this item.

Figure 5: Stigler-Peltzman Model



Source: Based on Peltzman (1976)

islation, which is the most important factor determining conditions on the market. Sam Peltzman (1976), a famous economist responsible for developing the theory of regulation, pointed out the phenomenon of a politician balancing between voters on the one side and interest groups on the other. Figure 5 illustrates the concept of the Stigler-Peltzman Model[9].

[See Figure 5] Politicians decide on the price level in a regulated industry. The price of a regulated economic good is depicted on the horizontal axis ('Regulated price'). The vertical axis, labelled as 'Profit (regulation)', describes profits (rents) in a regulated branch of the economy. Curves M_1 to M_4 represent political support for a politician, inversely proportional to the regulated price from the stand of voters and directly proportional to the regulated price from the stand of businessmen[10] – the M_1 support curve is more desirable than the M_2 support curve, *et cetera*. The PP curve represents profits of a regulated business – the curve is concave due to the fact that very high prices discourage customers from consumption.

Peltzman explains that a politician faces a trade-off challenge between the support from the electorate and support from rent-seekers. A rational politician does not seek either the maximum support from business (P_M *de facto* means a monopoly market structure), or the maximum support from voters (P_C *de facto* means a very competitive market structure). A rational politician,

[9] With respect to the work of another great economist George Stigler, the concept is usually referred to as the 'Stigler-Peltzman Model'. The terms 'Peltzman Model' or 'Chicago Model of Regulation' are also used. See more in Peltzman, S. (1976), *Toward a more general theory of regulation.*

[10] A lower price of the good means cheaper products, i.e. higher support for the politician from voters. A higher price of the good means higher profits, i.e. higher support for the politician from businessmen.

RENT-SEEKERS SEEK PROFITS, WHEREAS USERS SEEK UNINHIBITED ACCESS TO THE SHARING ECONOMY SERVICES THEY LIKE MOST

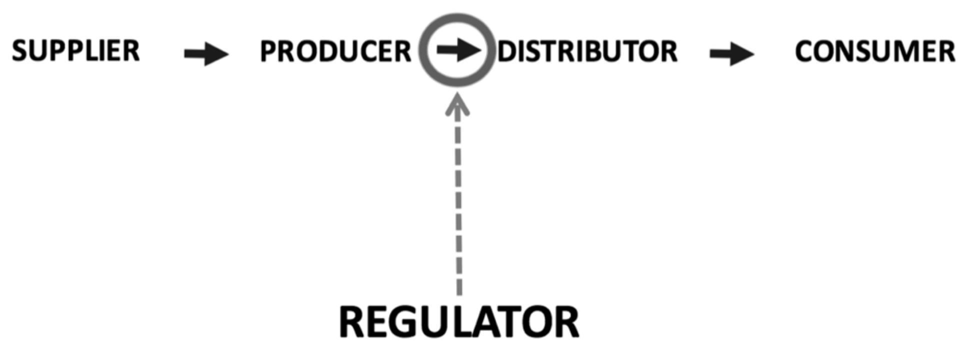
Peltzman says, should regulate the industry at point A, when the price level P* determines Profit* (business) and M_1 support (voters) – at this point, a politician gets the maximum possible support from voters with respect to maximum possible support from businessmen.

The recent debate about the sharing economy in most EU countries follows this concept from the point of the theory of regulation. The PP curve is understood as a profit curve of rent-seekers from "traditional branches" (e.g. taxi drivers, hoteliers, banks and credit institutions), M curves are embodying preferences of sharing economy users (on both the supply and the demand side). Naturally, rent-seekers seek profits, whereas users seek uninhibited access to the sharing economy services they like most. At the same time, politicians seek reelection.

According to the economic theory, the model of regulation determines the real motivations of politicians in sharing economy regulation – it would be naive to think that politicians would enable a 100% free environment for a sharing economy (subjects from traditional branches have some influence on politicians). On the other hand, politicians should not ignore preferences of sharing economy users, i.e. their voters. However, the model mentioned above implicitly determines the role of non-elected bureaucrats, on which the crucial responsibility could be delivered at the end of the day.

If a politician found out the dilemma between voters and businessmen is too complicated for easy political wins, he could show his "deep involvement" by moving the issue onto specialized bureaucratic institutions (bureau, ministry, commission,

Figure 6: Better regulation



etc.). However, shifting the responsibility onto a new regulative body with non-elected bureaucrats creates a basis for a growth of the state. Why? According to the public choice theorists, bureaucrats want to enlarge their administration because of more competencies, more respect and influence, work positions, money, opportunities for career elevators and higher stability of their position. Some regulation is, naturally, better than no regulation for bureaucrats and the issue of sharing economy could be another field where to follow subjective goals.

BETTER REGULATION

Sharing economy ideas need new and innovative regulation. This new regulation (or deregulation) shall systematically analyze an economic activity running on sharing platforms, highlight problematic aspects related to it and create positive incentives to prevent particular problems such as tax issues or reporting to state officials. [See Figure 6]

Let us consider the supply-demand chain and the tax issue arising between the manufacturer and the distributor, resulting in the negative fiscal impact. The *Prohibitio Ordinem* approach would try to control all transactions in the entire supply-demand chain, probably without satisfactory results (too many transactions to control equals too low a probability of being controlled). This could lead to an ascending regulation, prohibition or other regulatory steps (in favor of rent-seekers).

Inefficiency is pushed more by the argument of an unofficial economy – if the economic activity has a strong demand basis, it can move into the the shadow economy area where no control is easily carried out. The better regulation approach systematically identifies only particular issues and neutralizes them in two possible ways – the standard "see and punish" way (follow the rule or a penalty will come) or a better, positive way (do the transaction in a desirable way and affirmative action will happen). Of course, the form and scope of affirmative actions could vary – from the basic supporting cashless and trackable transactions on the one hand, to digital systems with online control of transactions and automatic tax obligation calculations run by government on the other.

Talking about the sharing economy, two areas are debated broadly these days in the Czech Republic – namely, taxi and accommodation services.

TAXI SERVICES IN THE CZECH REPUBLIC

A taxi service, defined by the Road Transport Act (111/1994), is an activity based on transport services provided to maximally nine customers, provided regularly and with the aim of creating profit. A driver must get under a special taxi concession to enter the business. In order to become a taxi driver in the Czech Republic, one has to go through four steps:

1. get a taxi driver ID;

2. pass a taxi driver exam (topography, legislation, taximeter operation);

3. register the car as a taxi driver's car;

4. acquire a trade license in the form of "taxi concession".

Apart from this, the driver must also possess a special insurance covering any potential customer-related issues during the transport (the so-called "seat insurance").

The controversy around the discussed sector is very often related to carpooling, which mirrors the legal dispute about regulative requirements targeting taxi drivers.

The current discussion focuses on three main topics:

- according to the Road Transport Act, the key component of the service is a question of "Whose need is satisfied?". Talking about transport, a customer decides on the destination and the driver simply satisfies the need for a contracted sum of money. On the other hand, when it comes to carpooling, it is the driver who decides on the destination and the passenger simply shares the cost. The factor of choosing the final destination is used as a key argument against carpooling companies in the Czech Republic;

- according to the Trade Act, each trade (economic) activity is defined as a permanent activity provided individually, under one's own name, on one's own responsibility and with the aim of generating a profit. The factor of "mercenary purpose" is a key argument used against carpooling companies in the Czech Republic;

- according to the Income Tax Act, the legislation defines an occasional income as a random activity which generates unsystematic revenue not higher than CZK 30,000 a year. Critics say that this definition does not apply to the carpool services since the drivers intentionally install the sharing platform application in their smartphones and profit is their only objective, and so they should have a trade license and follow both tax and social security obligations[11].

Although agents from classic industries tend to interpret these points as very serious problems, they are rather problematic areas than real obstacles. They could be easily dealt with by the means of a legislative procedure (e.g. defining sharing economy transport platforms as an official business channel with simple rules and conditions – taxation, insurance, etc.) which would be in line with the attitude of thousands customers and supporters, instead of tens or hundreds of rent-seekers, especially taxi drivers. The regulator must admit that there is a new market with new way of car transport, which needs a new, simple legislative which must be introduced. It is not surprising that technological revolution does not fit the old legislation.

ACCOMMODATION IN THE CZECH REPUBLIC

According to the Czech legislation, one can provide accommodation on their property in two situations: as an economic activity (under the Trade Act) or a rental activity (under the Income Tax Act).

The first regime requires a trade certificate (accommodation services), what means a regular business goal with a purpose of profit-seeking based on accommodation contracts with customers. The second regime is based on a short-term property rental contract – an individual does not need any trade certificate, but the income should be taxed under §9 of the Income Tax Act (income from rentals). One should also have an agreement with the property owner, should the property be not in their sole possession.

As far as the sharing accommodation services are concerned, the following three issues are discussed at length and emphasized by critics:

- registration of foreign guests at the Foreign Police database: According to the legislation, anyone who comes to the Czech Republic from a non-EU state for more than one day or from an EU state for more than 30 days, must register their stay at the Foreign

[11] With respect to tax duties, a debate about the Value Added Tax obligation is also on the table. When the platform as an economic subject is registered abroad and drivers (as economic entities) receive the service from abroad, they should pay VAT from platforms' commissions similarly as individuals advertising through Google AdWords, critics say.

Police or do so through an accommodation provider. The provider should administer a guestbook and provide the information to the Foreign Police within three business days;

• institutional problems: These services usually are a part of the shadow economy (tax evasion), do not follow hygiene regulations and accommodation standards;

• a price bubble on market with real estate: Sharing accommodation services are highly profitable, so the investments to realties push the market prices high and as well as the rentals for regular inhabitants.

The state should want to keep all agents in the official economy. Therefore, the points mentioned above should be dealt with particular measures, combining an e-agenda (e.g. online reporting) and smart regulations (e.g. fulfilling tax duties directly via sharing economy platforms).

CONCLUSIONS

Technologies are changing, so it should not be surprising that people are changing their economic behavior patterns. Therefore, it is both inefficient and useless to protect the rent of rent-seekers using traditional business models, or to try to fit the new businesses into the box with a deficient regulation. History knows many examples of giant companies whose sense of invincibility has led them to bankruptcy, or near to it: Blockbuster video, Pan-Am, USPS, Hummer, Kodak, Sears, Blackberry, A&F, to name just a few. Stop for a while and you will stagnate forever, it goes without saying.

Rent-seekers use three main arguments to convince regulators that regulation which will secure stable profits to rent-seekers is desirable:

1. The regulation is advantageous for the society, because “some” is always better than “none”.

2. The regulation has been imposed abroad also, so we should undoubtedly follow the practice of foreign countries.

3. The regulation will protect consumers, because it defines standards of products and services which is great.

When used at the right time and in front of the right audience, these arguments may look very serious. However, they are rather examples of a clever rhetoric. Bad regulations in favor of wellbeing of several rent-seekers is definitely not better than no regulations (1). It is not smart to copy any of the practices used abroad, but only the best practices from abroad (2). And, last but not least, the term ‘consumer protection’ does automatically signify that a consumer is probably better off, especially when this protection means printed contracts with officially verified signatures related to small transactions for several euros (3).

When talking about a massive development of markets and behavior patterns that a sharing economy provides, nobody can artificially decide what is really advantageous and what is just a whim. This decision can be made only by market actors. And they do not want to be “protected” from technological progress, better quality and low prices by the means of any regulation. A sharing economy is about to change the world, not the other way around. ●

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ALEŠ
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The Digital Side of Bulgaria

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YAVOR
ALEKSIEV

As a Bulgarian economic researcher, it is my job to frequently compare my country's performance in various aspects to the rest of the EU. Since the EU has 28 member states, bar charts are quite adequate when trying to visualize and explain a given issue. I have found out that once a chart has been created, my attention tends to drift towards its right side – the place where one usually finds a meager, well below average bar with the label "Bulgaria" below it. All things considered, this is hardly the case in regard to the development of the digital economy and e-government in Bulgaria.

BULGARIANS AND THE INTERNET

The story of the initial increase of internet penetration in Bulgaria is one of highly unregulated social and economic interaction. Most of the infrastructure and the client base in big cities were actually developed by small semi-legal neighborhood organizations, which one would find it hard to call "businesses" in any legally accepted sense of the word. Monthly payments were made in cash, usually after a visit from "the provider" with no documentation to certify transactions or obligations of any kind. This meant that once a significant (though informal) consumer market was in place, bigger companies could step in and buy it out without the need for significant advertising, human capital and infrastructural expenditures.

> "BULGARIA HAS ONE OF THE MOST DEVELOPED BROADBAND INFRASTRUCTURES IN THE EU AND FREQUENTLY MAKES IT IN THE TOP 10 OF VARIOUS GLOBAL CONNECTIVITY SPEED RANKINGS

From 2000-2006, most of these ventures were legalized just so that they could be acquired by cable TV operators, while others managed to keep "the big fish" away and gradually moved into the formal economy.

If ever there was an example of an unregulated free market approach to the development of a new type of social relations in

Figure 1: Bulgaria's internet connectivity performance card

	WORLD AVERAGE	EU	BULGARIA
Connection speed (Q1 2016)	**6.3 Mbps**	7.2 - 21.3 Mbps	15.8 Mbps
Average peak connection speed (Q1 2016)	**34.7 Mbps**	28.4 - 84.4 Mbps	59.0 Mbps
Households with Internet access (2015)	**43%**	82%	59%

Sources: Eurostat, National Statistical Institute, Akamai

Bulgaria – it is the spread of the Internet in the country. Bulgaria has one of the most developed broadband infrastructures in the EU and frequently makes it in the top 10 of various global connectivity speed rankings. However, all is not well when it comes to the significance of the Internet in the everyday life of an average Bulgarian. [See Figure 1]

Bulgaria is still one of the European countries with the lowest Internet access. In 2015, only 59% of Bulgarian households were connected to the Internet, compared to 82% in the EU. This relatively low level is indicative not only of the low standard of living of a (still) significant part of the population, but also of the severe demographic situation in some of the country's poorer and isolated regions. The latter results in the online exclusion of two seemingly unrelated socio-economic groups: 1) old people living in villages and 2) Roma communities, which usually comprise households with a large number of dependents, where parents have limited or no employment opportunities.

While a serious study of the catalysts of online exclusion is yet to be carried out, it is my understanding that demographic (age) and socioeconomic factors (cultural differences, poverty, illiteracy, social and labor market exclusion) by far play the leading role, compared to others such as central and local government policy, business practices, or basic infrastructural development.

This is also in line with what the little data we have suggests: according to the National Statistical Institute (NSI) 51.6% of households without internet access say that they lack the basic IT skills needed for using it, while 38.5% say they could not afford it. In addition, just 31% of people aged 55-64 and about 10% of people aged over

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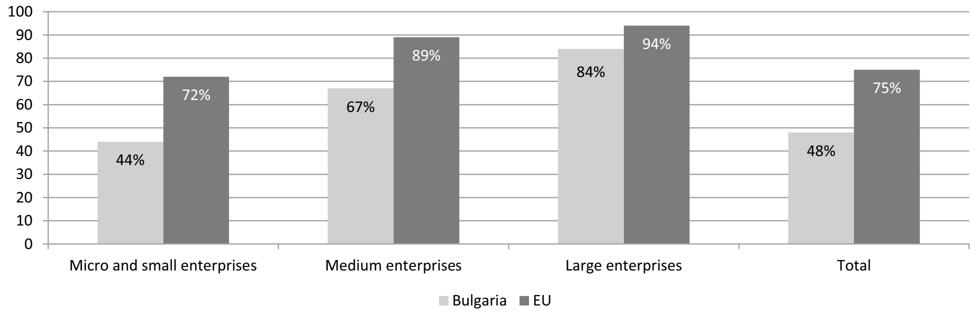
THE AVERAGE RETIREE AND THE AVERAGE ROMA PERSON ARE YET TO MAKE THEIR WAY ONLINE IN BULGARIA

65 have used the Internet at least once weekly in 2015. The two districts with the largest share of self-declared Roma population (Montana and Sliven) are also among those with the smallest share of households that had internet access in 2015 (36.8% and 44.6% respectively, compared to a national average of 59.1%) Simply put – the average retiree and the average Roma person are yet to make their way online in Bulgaria. While this means that there still exists a significant internet user market, it is highly unlikely that it will be developed in the short term.

We see a similar pattern in regard to Bulgarian businesses. The latest (2015) Eurostat data show that only 48% of Bulgarian enterprises have their own website, compared to 75% in the EU. The difference with average EU-levels is most significant in regard to micro and small enterprises (44% for Bulgaria and 72% for the EU), but the latter by far form the most significant share in regard to the size of enterprises.

In contrast, the difference in the share of large enterprises (the ones that employ over 250 people) that have their own website is just 10 percentage points – 84% for

Figure 2: Share of enterprises that have their own website (2015)



Source: Eurostat

Bulgarian ones, compared to an average of 94%. What is more, medium and large Bulgarian enterprises have been quicker to catch up with their European counterparts (narrowing the difference by 7 percentage points in the 2010-2015 period), than micro and small enterprises (just 2 percentage points). [See Figure 2]

One of the explanations behind this is that a significant share of the larger enterprises in Bulgaria is actually owned by foreigners. While somewhat discouraging, the numbers show that the development of online trade and services in Bulgaria is yet to achieve its true potential. This means that a significant buffer still exists for lowering prices for domestic consumers. Online transactions have been proven to be cheaper than traditional ones, mainly because of the cost-optimization that online-based businesses can achieve in regard to expenditures on transportation, labor and storage.

> ”
> BULGARIA HAS EVEN BEEN DESCRIBED AS THE “SILICON VALLEY” OF IT-RELATED ACTIVITIES

THE DEVELOPMENT OF THE BULGARIAN ICT SECTOR

The rapid expansion of the country’s ICT sector has been well documented by foreign media. Bulgaria has even been described as the “Silicon Valley” of IT-related activities and is one of the few EU countries to have ever made it in a number of Top 10 outsourcing destinations rankings such as AT Kearney’s Global Services Location Index. The main drivers behind ICT sector foreign investment have been the (still) competitive wages, the relatively low rents for office spaces, the excellent broadband infrastructure, the country’s EU membership and the Bulgarian tax system, which boasts a flat 10% tax on individual income and a 10% corporate tax rate.

According to Eurostat, from 2006-2014, the ICT sector’s share of the country’s annual gross value added tax (GVA) increased from 3.8% to 5.6%, while the EU average actually dropped from 5.0% to 4.9%. The influx of foreign ICT companies in Bulgaria has led to a significant increase in labor demand, thus causing

> THE DEVELOPMENT OF BULGARIA'S ICT SECTOR IS WIDELY VIEWED (AND RIGHTLY SO) AS ONE OF THE BEST HOPES OF THE COUNTRY TO RETAIN YOUNG PEOPLE WITH SIGNIFICANT ECONOMIC POTENTIAL

wages to rise way quicker than those in other economic activities. In 2015, the average employee in the ICT sector received a 2.5 times higher salary than the country's average.

World Bank data shows that revenues from Bulgarian ICT exports have risen from EUR 113 million in 2011 to EUR 778 million in 2015 – thus tripling in value in the course of just a few years. Most of these (EUR 465 million in 2015) are EU-bound, but on the country level the largest importer of Bulgarian ICT services is the US (EUR 152 million), followed by the United Kingdom (EUR 97 million) and Switzerland (EUR 41 million).

In 2015, the revenues from the export of ICT-related services accounted for nearly 11% of the overall export of all services, compared to 9.5% and 7.7% respectively in ICT powerhouses such as Estonia and the UK. [See FRAME]

WHY IS THE ICT SECTOR IMPORTANT FOR BULGARIA?

The development of Bulgaria's ICT sector is widely viewed (and rightly so) as one of the best hopes of the country to retain young people with significant economic potential. The latter is a serious concern, since young, well-educated and highly productive Bulgarians tend to account for a big part of the migration from the country. While wages in Bulgaria are still the lowest in the EU, people employed in ICT (and especially in IT) have found their living standard rise much faster than the country

One of the highlights of the rapid development of the Bulgarian ICT sector in recent years has been the 2014 "Progress Software" acquisition of the Bulgarian company Telerik for close to USD 260 million.

Telerik was founded in 2002 by a small group of American University in Bulgaria and Technical University of Sofia graduates. It specialized in software development and the creation of application development tools and currently employs over 1,000 people. In 2009, the company launched a completely free training program for software developers, which has so far been attended by almost 10,000 students.

This private sector-led program has been by far the most successful ICT education initiative in the country, with Bulgarian universities so far being unable to provide students with a comparable curriculum.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KICKS

average, which lowers their economic motives for searching for career opportunities abroad. This is due to several factors:

1. Compared to most other EU countries, Bulgaria's tax system is relatively accommodative of people with higher than average earnings. The country has a 10% flat income tax, combined with a BGN 2,600 gross salary maximum insurance threshold. The latter practically means that all income above BGN 2,600 is not subject to obligatory social and health contributions, which form the largest share of direct taxation for individuals and a significant share of the labor-related expenditures for employers. This means that employees get to keep a larger share of what the employer actually pays for their services. For instance, if a developer received a BGN 2,600 gross salary (around EUR 1,330), he would presently get to keep BGN 2,038 of the total BGN 3,070 that the employer has to pay[1]. This means that his net salary would equal 66.4% of what the employer actually pays for his services. In comparison, if the gross salary was to reach BGN 4,000 (which is quite common for IT specialists with five or more years of experience), the employee would get to keep BGN 3,135 of the BGN 4,470 that the employer would have to pay. The net salary now equals 70.1% of the total expenditures by the employer.

2. Bulgaria is currently the country with the lowest corporate tax in the EU – just 10%. This is, without a doubt, one of the leading drivers of FDI investment in the country and has helped the development of Bulgaria's ICT sector, which has led to an increased demand for labor and thus – to higher wages for employees.

[1] Note that the expenses for the employers are actually higher than the gross salary, because of their obligation to pay around 60% of the total compulsory social insurance payments.

IT SECTOR IS SHOWING SIGNS OF ACHIEVING WHAT VERY FEW ECONOMIC ACTIVITIES IN SERVICES HAVE MANAGED TO DO – PROVIDING HIGH PAYING JOBS NOT ONLY IN SOFIA, BUT ALSO IN OTHER REGIONS OF THE COUNTRY

3. The differences in the purchasing power of average wages across EU countries means that each euro in additional income in Bulgaria actually enables the acquisition of more products and services than in many other EU other countries. This is especially the case for higher paying jobs such as the ones in the ICT and (especially) IT sectors, also because of the already mentioned flat tax system, resulting in lower taxes on high earners.

It is worth noting that the IT sector is showing signs of achieving what very few economic activities in services have managed to do – providing high paying jobs not only in Sofia, but also in other regions of the country. The under-supply of labor in the capital and the rapid increase in wages has forced companies to expand their activities in the second and third biggest cities (Plovdiv and Varna) and has created incentives to target smaller cities as well. Thus the IT sector may yet help to address one of the leading economic issues in Bulgaria at present – the vast differences in job availability, wages and general economic diversification and development in the different regions of the country.

With all this in mind, it is easy to see why the significance of Bulgaria's IT sector is not only limited to its economic contribution, but also accounts for the improvement (or at least the less rapid deterioration) of social and demographic trends.

ICT WAGES AND EMPLOYEES

In order to better understand the appeal of the ICT sector in Bulgaria, one has to look a bit deeper than the headline wage and employment numbers. The latest available and comparable data from Eurostat and the National Statistical Institute (NSI) shows that:

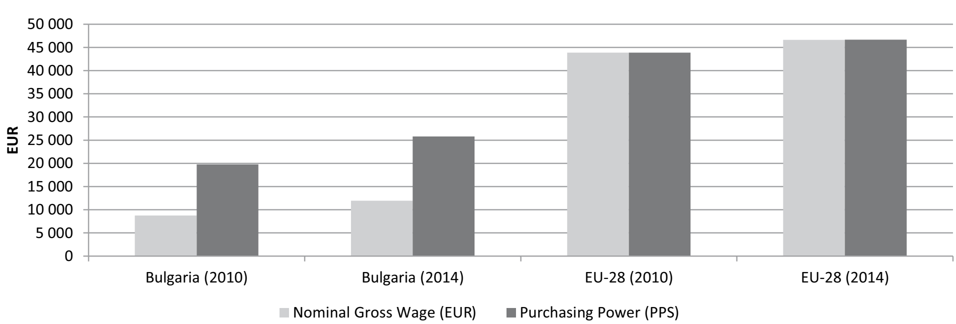
- In 2010, the number of Bulgarians employed in the private ICT sector stood at 57,994 people, accounting for 3.5% of all private employees, compared to 3.4% in the EU. Nominal gross annual average earnings stood at EUR 8,778, compared to EUR 43,897 in the EU, which translates to 20% of the EU average.

- In 2014, the number of Bulgarians employed in the private ICT sector stood at 69,093 people, accounting for 4.1% of all employed, compared to 3.6% in the EU. Nominal gross annual average earnings stood at EUR 11,924, compared to EUR 46,647 in the EU, which translates to 26% of the EU average.

- In 2015, average gross wages in the Bulgarian ICT sector raised by an additional 7% while the number of employees increased by 1,750 people (a 2.5% increase). Although no comparable data is yet available on the EU level, these figures suggest that the catch-up process is well on track.

Despite the fact that the difference still seems significant, it has to be noted that **the purchasing power of ICT sector wages in Bulgaria is highly competitive**, when compared to those in other EU countries. The aforementioned differences in taxation levels and the peculiarities of the Bulgarian tax system (namely, the maximum insurance threshold) mean

Figure 3: Annual average wages in the ICT sector



Source: Eurostat

that Bulgarian ICT employees get to keep a larger share of their gross earnings than ICT employees in other EU countries.

In addition, **the general price level in Bulgaria is lower than the EU-average**. If we account for the purchasing power of the ICT wages in the EU and in Bulgaria, we see that the difference in the amount of goods and services that the average employee can afford drops significantly. While the nominal ICT gross wage in Bulgaria has increased from 20% to 26% of the EU average from 2010-2014, its purchasing power stood at 45% in 2010 and reached 55% in 2014[2]. [See Figure 3]

Despite the increasing economic and social significance of the Bulgarian ICT sector, there is still much to be desired, especially on account of the central government. The country's labor code is in bad need of a major overhaul, research and development (R&D) spending in the economy has remained low by EU standards and the overall protection of property rights (including intellectual property rights) is more of an intriguing concept than a reality. At some point the increase in ICT wages will probably slow down due to international competitiveness pressures, as well as the aforementioned gradual shift of ICT activities away from the capital.

E-GOVERNMENT IN BULGARIA

It is evident that the digital development of Bulgaria's economy and social relations remains fairly uneven. This is also very much the case in regard to the development of the e-government. While more and more administrative services are available on-line, their use has remained limited and their quality leaves much to be desired.

By all accounts most e-government initiatives under the country's "Administrative Capacity" program from 2007-2013 yielded unsatisfactory results, with some notable exceptions such as the projects implemented by the National Revenue Agency (NRA). The latter had a telling effect on both the NRA's capacity to detect tax evasion practices,

> BULGARIANS REMAIN PREDOMINANTLY "PASSIVE" INTERNET USERS – PARTICIPATION IN PROFESSIONAL ONLINE NETWORKS, ONLINE BANKING, BLOGGING AND ONLINE CITIZEN ACTIVITIES REMAIN RELATIVELY UNPOPULAR

and its online appeal; in recent years a growing number of citizens and businesses have made use of NRA's online services, including online filing of tax forms. A number of Bulgarian municipalities have also managed to gradually

[2] According to own calculations based on Eurostat.

implement various e-government tools, including online public procurement portals, administrative and tax-related services and various two-way communication methods.

Despite all these improvements, the use of such services has remained limited, as many citizens and businesses have yet to try and take advantage of the available options. Bulgarians remain predominantly "passive" internet users – participation in professional online networks, online banking, blogging and online citizen activities remain relatively unpopular. NSI data shows that in 2015, less than 18% of internet users had any contact with local or state institutions and less than half of them actually engaged in two-way communication.

Despite the ongoing push for the introduction of various e-government services, most Bulgarian lawmakers and political parties showed reluctance in regard to the adoption and implementation of online voting (e-voting). Recent successful hacker attacks against a number of government websites (including the Central Election Commission) have proven that some of the concerns regarding the country's preparedness for such a venture are well founded. However, most arguments against the introduction of e-voting in the country's elections and referendums came from parties that traditionally lack support from Bulgarians living abroad. After a successful, but not legally binding referendum was carried out, and under continuous public pressure, the Parliament finally introduced and voted legislation that foresees the gradual implementation of online voting (after an initial testing phase) into power.

THE OPEN DATA MOVEMENT IN BULGARIA

In recent months the coalition government has repeatedly tried to portray Bulgaria as a "trend setter" in regard to public open data initiatives. While such a statement is clearly exaggerated, it is true that as far as the development of e-government and the openness of public administrative bodies are concerned, the current administration has managed to achieve visible results and has put forward proposals and solutions to some long overdue issues.

For instance, Bulgaria ranked 16th in the 2015 Global Open Data Index, up from 51st in 2014, thus surpassing countries such as: Slovakia, Latvia, Austria, Switzerland and even Germany. The country received high rankings for the openness of its "National Statistics", "Procurement Tenders", "Election Results" and "Government Budget" datasets, large parts of which are already available in various electronic formats and are easily accessible.

The positive results that have been achieved during the past two years are to a large extent a result of the efforts of Rumiana Bachvarova, the Deputy Prime Minister for Coalition Policy and Public Administration and acting Minister of Interior, and what has come to be known as "her team". The latter consists of leading e-government and digital economy activists (mostly developers), who have been charged with the ambitious task to practically change the mentality and practices of Bulgarian administrative bodies in regard to the way they collect, store and publish information. They are also the leading force behind the development of the www.opendata.government.bg portal (the official repository and the main go-to place for open data in the country) and also act as advisors in the legislative open data and e-government initiatives.

This expert-led approach to the development of functioning public systems and corresponding legislation may be a common practice in many European countries, but is somewhat of an exception in the

A TIMELINE OF THE ADOPTION OF E-VOTING IN BULGARIA

01/29/2014 – The President of Bulgaria Rosen Plevneliev proposes a referendum about electronic voting (to be held in conjunction with the upcoming European Parliament elections in May the same year).

02/03/2014 – The CEDB party proposes full electronic voting in Bulgaria and electronic voting for Bulgarians abroad.

02/12/2014 – While discussing and voting the changes in the Election Code, the majority in parliament rejects the proposal of CEDB for the introduction of electronic voting.

06/03/2015 – President Plevneliev officially submits a proposal to the National Assembly for local elections and a referendum to be held together on October 25, 2015 with the following questions:

1. Do you support part of the members of parliament (MPs) to be elected through a majoritarian system?

2. Do you support the introduction of compulsory voting in elections and national referendums?

3. Do you support being able to vote remotely by electronic means during elections and referendums?

07/28/2015 – The Parliament narrows down the presidential referendum only to the question about electronic voting, rejecting the other two questions.

10/25/2015 – Local elections are held along with the referendum "for" or "against" electronic voting. The results from the referendum are 69.5% "for", 25.99% "against", 4.51% void. The total turnout for the referendum is 39.6%, and thus the outcome of the referendum is not binding?? for Parliament. However, regulations state that if the activity in the national referendum is over 20%, Parliament must vote on the issue.

11/10/2015 – "Slavi's Show" initiates a petition for a referendum that contains six questions, one of which is again whether electronic voting should be introduced. The initiative lasts three months and in the end manages to collect 673,481 signatures. In May 2016, the questions are approved by Parliament without changes to be held as referendum along with the presidential elections in November the same year.

01/28/2016 – The CEDB, MRF, The Reformist Block, The Patriotic Front and ABR parties declare themselves "for" the electronic voting and support it during the discussions.

02/09/2016 – MPs support the introduction of electronic voting (provided that there are legal guarantees for protecting the secret of the vote, for civilian control of the election process and for the security of information systems).

04/27/2016 – Parliament adopts electronic voting from 2018 on. Electronic voting should be conducted experimentally three times during 2018 (to be held in one electorate region) and if successful, will be officially introduced in the elections for European MPs in 2019. Until that date, the Central Election Commission should do three simulations of remote electronic voting with fictitious parties, coalitions or candidates. People will be able to change their vote multiple times and the last vote will be the one that actually counts.

case of Bulgaria. In the course of two years Ms. Bachvarova and her team have managed to:

1. develop, popularize and monitor the country's official open data web-portal;

2. push through legislation that makes the use of publicly available open source code a prerequisite for the eligibility of projects under the 2014-2020 "Good Governance" Operational Program of the EU. The 2016 amendments in the Law of Electronic Governance require that all software written for the government is open source and is developed as such in a public repository (thus being freely available to practically everyone);

3. increase the administrative capacity of a number of public bodies, which has resulted in the publication and follow-up support of a number administrative registries and datasets that (although theoretically public) were practically unavailable for the average citizen.

Despite all these positive developments, as has been repeatedly pointed out by Bulgarian researchers, developers and open data enthusiasts, the unavailability or low quality of geographic location and land ownership datasets pose serious challenges for the adequate utilization of many other informational sources.

Some of these shortcomings are the predictable result of the woefully slow development of the country's cadastral maps, as well as the general problems with land ownership and protection of property rights. In addition, many of the recently opened public datasets (with a few notable exceptions) do not really provide developers and researchers with tools that can support the development of sustainable applications or products and are rather "static" in nature. To some extent, these deficiencies will probably be overcome with time, but they are worth noting and are probably one of the main reasons why Bulgarian companies and NGOs have so far been unable to secure funding from open data related initiatives such as Google's "Digital News Initiative" (DNI) and EU's Horizon 2020 "Open Data Incubator for Europe" (ODINE).

Despite the fact that open data initiatives should (in theory) empower NGOs, citizens and businesses to exercise control over the policy making process, the latter is yet to materialize in Bulgaria. I would argue that some of the reasons for this lie not in the datasets themselves, but rather in the lack of expertise, practical and technical preparedness of Bulgaria's non-governmental sector to make good use of big data. Still, there have been some recent good examples of data-driven journalism and open data applications that suggest that this problem will be overcome with time.

CONCLUSIONS

Most aspects of Bulgaria's digital development are well on track with that of the EU as a whole. While there is plenty of praise to go around, the rise of the ICT sector and the push for open public institutions has been almost entirely due to the efforts of citizens and businesses (local, as well as foreign ones).

As far as crediting Bulgarian governments goes, their biggest contribution so far has been the reluctant, yet visible adoption of the imperatives of the digital society. Institutions have been slow to change their ways, but they are increasingly doing so, by offering digital alternatives to traditional administrative services and providing access to previously buried data sets.

And yet, the government may still have their part to play in the development of Digital Bulgaria. While it is highly unlikely that the new law on public education will ignite a digital spark in state-owned universities, the realization that something is wrong with the way the government encourages and subsidizes some specialties is slowly settling in. The recent push in regard to open data initiatives and the adoption of e-voting have proven that given the chance, citizens can actually convince the Parliament to change its stance on a given issue.

However, perhaps the most serious challenge that is yet to be tackled by the administration is the facilitation of a digital business friendly environment that offers adequate property right protection. While there are many aspects to such a task, the following five points should be pointed out as the most important prerequisites for achieving such an end:

1. adopting a clear and long-term commitment to the 10% flat tax on personal income and the 10% corporate tax;

2. coming through with the full scope of the much necessary and long overdue judicial reform that will ensure the rule of law and will help crackdown corruption, thus increasing the investment appeal of the country;

3. adopting legislation that will help liberalize labor relations (especially long distance and part time work) and make them more flexible;

4. resisting any temptations of trying to “actively support”, “guide” or “take part” in the development of Bulgaria’s ICT sector;

5. not giving in to frequent rent-seeking practices such as the pressure from taxi companies that ultimately led to the suspension of the services of UBER in the country.

Provided these prerequisites are met, the Bulgarian governments will be able to ensure the lasting digital appeal of the country and maybe, just maybe, it will someday turn into the trend-setter we all want it to be. ●

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A Digital Agenda for Poland: Top 10 Suggestions

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MONIKA
ROSA

Today, Poland faces serious political and economic problems. The crisis created by the current Law and Justice (PIS) regime suggests that in the long run, Poland may not be able to catch up with the more advanced democracies and better developed economies. The process initiated 25 years ago has lost its momentum. Almost every day the government disregards liberal democracy and the rule of law, disbands independent institutions and flouts the Constitution. The government shows also an absolute lack of understanding of modern economy. The precious time needed for reforms to get out of the trap of middle income is wasted and free-for-all policies implemented by the authorities risk ruining the Polish budget. Under these circumstances the opposition is becoming well prepared for the period "after PiS". The liberal agenda must be comprehensive and development-oriented. It must be responsible and steer clear of populism.

> "REFORMS MUST TAKE THE GLOBAL TRENDS AND LATEST CHALLENGES INTO CONSIDERATION. POLISH GROWTH WILL BE BUILT ON KNOWLEDGE, NEW TECHNOLOGIES AND INNOVATIONS

Reforms must take the global trends and latest challenges into consideration. Polish growth will be built on knowledge, new technologies and innovations. This great leap forward will not be possible without an ambitious digital agenda. The global economy is now digitalized and the digital economy is changing extremely fast. The race for innovation, skills and markets forces all governments and organizations to anticipate and adapt in order to thrive. Poland is lagging behind many other countries when it comes to the fast, reliable and connected digital networks which underpin economies and every part of the administration, business and private lives.

The presented article gives an overview of top 10 digital challenges for Poland. The list is subjective and some of its elements can be substituted by others. Nevertheless, I believe it is a good starting point for a discussion about the future of Poland.

CYBERSECURITY

Our freedom is fragile and must be protected. Polish citizens must feel safe in the modern world that does not look safe at all. Recent years show that threats come from many directions, the most ominous ones from the East and from the South. Terrorism in its broadest sense (both in the form of the so-called Islamic State and the hybrid war) has become the biggest challenge for the Western world. This was clearly manifested during the last NATO summit in Warsaw. Today, no one doubts that full and comprehensive security requires cybersecurity. The EU and NATO leaders pledged to increase cooperation in five areas, including cyber safety and security. They aim to deal thoroughly with hybrid threats and hybrid war. Therefore a public discus-

> THE NEW SURVEILLANCE LAW IN POLAND WILL PUT THE RIGHT TO PRIVACY AT RISK, AND WITH IT, OTHER HUMAN RIGHTS, THE SAFEGUARDING OF WHICH DEPENDS ON THE RIGHT TO PRIVACY

sion about a potential EU hybrid expertise center would now be very welcome. Although EU and NATO leaders pledged to strengthen cybersecurity, threats come not only from outside.

Concurrently, liberals should do everything in their power to stop those who want to use terrorism as an excuse to circumscribe our freedoms. New technologies for data collection, data storage and manipulation appear to offer governments the tantalizing opportunity to find out more and more about the individuals and societies they govern. The current Polish government is doing just that.[1] The Law and Justice party's majority in the parliament approved new rules on surveillance by security services that critics say will allow widespread electronic eavesdropping and will intrude on citizens' privacy[2]. The

[1] E.g. Citizen Lab, published its report entitled *Planet Blue Coat: Mapping Global Censorship and Surveillance Tools* which found that technology that can be used to track network users and censor offensive content is actively being used on government or public networks and identified "11 ProxySG and 50 PacketShaper devices on public or government networks in countries with a history of concerns over human rights, surveillance, and censorship. Available [online]: https://citizenlab.org/wp-content/uploads/2013/01/Planet-Blue-Coat.pdf)

Human Rights Watch researcher Cintia M. Wong claims that "[t]hese digital dossiers appeal to governments for a range of purposes, both legitimate and illegitimate. By accessing data held by the private sector, governments can easily uncover patterns of behavior and associations, both offline and online—whether to thwart security threats or to identify a particularly vocal online critic of government policy." She adds that "Security agencies in the US and UK have responded by building enormous storage facilities and voraciously collecting as much data as they can. During the 2008 visit to the United Kingdom, US General Keith Alexander, the then-director of the NSA, asked, "Why can't we collect all the signals, all the time?" The UK set out to meet that challenge with its Tempora program, which involves the mass interception of data flowing over 200 undersea cables connecting Europe to the Americas, Africa, and beyond. Media reports from the past year also indicate that the GCHQ may secretly be capturing and storing webcam images of millions of Internet users." (https://www.hrw.org/world-report/2015/country-chapters/global-0)

[2] There are significant flaws in anti-terrorism laws all over the world that threaten fundamental freedoms by giving the government the power – without probable

law was approved after a fast-track process, which brought only minor changes to the draft law, despite strenuous opposition from civil society groups and other experts. Liberals should push for legislation that adheres to the principles of the rule of law and limits the state's powers to surveil people.

The new law creates a host of new major problems: it allows the use of intrusive surveillance measures and extends the scope of the so-called "covert investigative methods" on the basis of vague conditions and an unspecified catalogue of crimes; it allows the use of surveillance tools that capture "online data" which collect and analyze the personal data of internet users without the obligation to submit an application and obtain approval from a judge or other independent authority before each instance of data collection for accessing telecommunication and online data.

The amendments deeply encroach on citizens' privacy, especially when it comes to internet use. It will make it almost impossible for individuals to find out whether they are being unlawfully spied on, as the draft does not contain an obligation to notify targeted persons at the conclusion of surveillance. The new surveillance law in Poland will put the right to privacy at risk, and with it, other human rights, the safeguarding of which depends on the right to privacy. The new law endangers not only the right to privacy but it also undermines the right to freedom of expression and may lead to self-censorship and reduce the right to seek and impart information of all kinds.

Moreover, the law fundamentally changes the relationship between citizens and the state. The former must assume they are under constant watch, which is highly likely to alter their behavior over time. This is how an oppressive state works, not what a liberal democracy should look like. Polish services and police do not need more powers but better coordination and closer cooperation within the existing EU structures. Special cybersecurity units should be set apart and well trained in all kinds of security services. Finally, two special centers of cybersecurity should be established – one for victims and potential victims of cybercrimes and one for administration and operators of critical infrastructure.

> ONLY ABOUT 1% OF POLES HAVE ACCESS TO E-SERVICES

EFFICIENT E-ADMINISTRATION

Some statistics exude optimism. According to the Central Statistical Office (GUS), more and more Poles want to use e-administration services. However, according to Eurostat, only 25% of Poles do so. This percentage is very disappointing as the European average is over 50%, and in countries like Finland or Sweden it is over 80% (Eurostat 2014)[3].

The Supreme Audit Office of Poland (NIK) reported in 2015 that regardless of the substantial outlay on the digitalization of administration, usage of e-services is minimal. Only about 1% of Poles have access to e-services. The report shows that the main e-platform of the Polish administration ePUAP that acts as a tool for exchang-

cause – to access medical records, tax records, library records, etc., and the power to break into one's house and conduct secret searches without informing indefinitely. See also: David Burnham (1983) *The Rise of the Computer State*, Random House.

[3] http://jem.pb.edu.pl/data/magazine/article/447/pl/1.2_aleksiejczuk_sachpazidu.pdf

ing messages between institutions and citizens cannot be reached by a majority of the population. The ratio is 96:4. Thus the tool that costs approximately EUR 8 million every year works more as a Facebook for clerks. The situation is not much better in the case of local and regional e-platforms. The NIK stresses that e-administration should be safe, intuitive, and available to the citizens when they need it, i.e. 24/7. This is something we cannot argue with.

If our administration is to progress from the Paper Age to the Digital Age, these e-platforms must be used. Still, too many public services require the physical appearance of citizens in the office with paper documents in hand. This must change. However, let us bear in mind that digitalization should not be an end in itself. The final end should be the satisfaction of citizens, saved time and money. The e-administration must offer services compatible with those of private companies. Otherwise, we will only export bad standards from traditional bureaucracy to the online world.

It is important that the e-administration covers matters that are most widely used. Today, the list is way too short. At least eighty new services should be added to the system immediately. And this does apply not only to e-forms, but also to full procedures online. In Poland today we can talk about forty services already offered, compared to 2,500 in Estonia. The gap between the two countries seems daunting.

New services must be added in a systematic and coordinated manner to avoid the squandering of resources, replication of projects and corruption. So far (2008-2015) the systems of e-administration in Poland cost taxpayers EUR 1 billion[4]. These are huge sums that we do not feel are well spent. Polish citizens know that there are some especially sensitive spheres of the state's activities that need digitalization, like justice and taxation. It should be possible to send procedural documents to the court online. The development of platforms such as: e-Podatki (*e-taxes*) and e-Cło (*e-customs*) must be integrated and modernized for better transparency and effectiveness of the business environment. Automatic publication online (in the Public Information Bulletin) of all contracts by public authorities will increase social trust towards the administration. But above all, the sector that is in a dire need of e-revolution is the health care system. Digitalization means faster access to patient data as well as a more efficient delivery of the medical tests results. E-prescriptions mean fewer mistakes, better communication with pharmacies and easier accounting.

OPEN GOVERNMENT

Open government is the one with the high levels of transparency and mechanisms for public scrutiny and oversight in place, with an emphasis on government accountability. Transparency is considered the traditional hallmark of an open government, meaning that the public should have access to government-held information and be informed of government proceedings. Nevertheless, the definition of open government has expanded in recent years and now includes expectations for increased citizen participation and collaboration in government proceedings through the use of modern open technologies. Governmental information should be freely and readily available via the Internet. Government should use collaborative technologies to create a platform through which government and individuals can work together to improve the transparency and efficiency of government services. Moreover, open government is based on liberal val-

[4] http://www.rp.pl/Zadania/305039981-Anna-Strezynska-efekty-budowy-e-administracji-w-Polsce-ostatnich-latach--mizerne.html

ues: transparency, participation and co-operation. Therefore, open government should be proudly implemented and promoted by liberals.

One of the key aspect of open government is free access to data. Most of the time citizens are only able to engage with their own governance sporadically — maybe just at election time every 4 or 5 years. By opening up data, citizens, as well as NGOs and businesses can be much more directly informed and involved in decision-making. Open government ends the idea of clerks as an upper caste, and experts in governing, it alternatively stresses the importance of citizens and processes outside the administration. This is a new paradigm of democracy, a transition from the old 20th century notion of a limited democracy to an open, deliberative one.

The Polish government is opening itself slowly but regularly[5]. Still, a lot needs to be done. There is no master plan or agenda for the open government in Poland, instead there is messy implementation of small projects . The mindset that creates a barrier, not allowing access for all citizens to public information and a degree of control over the public administration must be discarded. The Polish government does not want to participate in the Open Government Partnership. Access to public information is often denied by administration officers, in defiance of the law. This reluctance and fear can be overcome only by dialogue. All parties, government, citizens and NGOs should get involved in designing new tools and procedures.

In order to become open, the Polish government should also support citizens' initiatives that aim at complete transparency of the public administration. Best practices from abroad could be implemented, for example: "Apps for Democracy" (USA; program to create public applications for acquiring information useful to citizens), Recovery.gov (USA; to foster greater accountability and transparency in the use of public funds), Open Parlamento (Italy; allows for following debates and voting in real time), Omvård (Sweden; portal to compare public services in health care), Kamu (Finland; compares campaign declarations with voting in the parliament)[6]. New democracy must be cooperative and must distil knowledge and experience of all experts and volunteers[7]. Those in power should make the best use of involvement, ideas and energy of public at large.

DIGITAL COMPETENCES AND MEDIA EDUCATION

Researchers point out that the reluctance many Polish people feel towards the e-administration stems from the mistrust of new technologies and new forms of communication[8]. This suspicion comes from low digital competences on the part of Poles. In a recent report of Projekt: Polska Digital Center and WIZE we read: "Among those not using the internet, a dominant argument in favor of the off-line approach is the lack of opportunities to make use of it. What is more, among those who declare regular contact with [the] Internet, a shortage of skills is often observed. The ways [the] Internet is used in Poland nowadays differ from those in Western Europe. Not only does the percentage of users in the

[5] See: Open Government Data Review of Poland, OECD 2015.

[6] Projects are run by NGOs, state and local governments.

[7] http://centrumcyfrowe.pl/wp-content/uploads/2011/06/mapa_drogowa_otwartego_rzadu_w_polsce_skrot.pdf

[8] E.g.https://mac.gov.pl/files/wp-content/uploads/2011/12/e-administracja-w-oczach-interneutow-2012.pdf, http://www.sbc.org.pl/Content/151331/Fleszer.pdf

population vary, the frequency of Internet usage does as well. Using Internet via mobile phones continues to be at a low level, while the professional, work-related usage provides hardly any stimuli for digital inclusion"[9].

Actions aimed at fostering the development of digital competence and e-integration can boast a relatively long tradition in Poland – the first projects of this kind were undertaken in late 1990s[10]. Those activities placed a particularly strong emphasis on the equipment factor, while the competence factor was less important. The emergence of new technologies (like smartphones) had a complementary, not a substitutive effect on employing other technologies.

Although youth trusts information found online (66% find online information very trustworthy or trustworthy) and the Internet is the main source of knowledge when preparing for school for 60% of young Poles, only 21% of users double check information found online. This is why media literacy must become a priority in digital education in Poland. Media literacy is the ability to access, analyze, evaluate, and create media. It helps develop critical thinking skills, recognize what the media makers want us to believe or not, recognize bias, spin, misinformation, and lies, evaluate media messages based on our own experiences, skills, beliefs, and values. Therefore media-literate people can evaluate the credibility of sources and effectively use the online content. However, we cannot forget that digital competences do not apply only to children and teenagers. Challenges lie also in the notion of providing training for adults. The main aim is to facilitate adaptation, inspiration and training, which can be achieved by means of various forms of actions: stationary, mobile, virtual and those embodied by human capital.[11]

Digital education is also a very important form of combating online hate speech and the hate subculture. Social media and online forums very often become a source of the most radical and cruel hate speech that might, in turn, inspire hate crimes in an offline world. The first step in combating this terrible phenomenon is education, not legal prohibition.

E-SCHOOL, E-TEXTBOOKS

One of the key aspects of digital competences mentioned above are equipment competences. They are connected not only with the utilization of equipment and hardware but also of the internet and online tools. They cannot develop without proper internet access, and at the moment 396 Polish schools have no internet access and schools this access is restricted in 16,700 (e.g. available only in the principal's office). All educational establishments (e.g. public schools) and other similar establishments must connect to the fast or ultrafast Internet[12].

According to the research carried out by the Orange Foundation, Polish youth rates their digital skills highly. 38% of the young people declared they could use advanced

[9] http://www.polskacyfrowa.gov.pl/media/5180/RK_kompetencje_cyfrowe.pdf

[10] E.g. the Library Development Program, Third Age Library, e-centres run by the Aktywizacja foundation.

[11] http://centrumcyfrowe.pl/wp-content/uploads/2011/06/mapa_drogowa_otwartego_rzadu_w_polsce_skrot.pdf

[12] In 2009, the government launched "One Pupil— One Computer" program aimed at providing access to a personal computer and to Internet to every pupil. Initially the program budget was estimated at approximately PLN 500 million per year, and financing would have been shared by the government and the local authorities with possible contribution from parents. Unfortunately, the program was suspended in 2009, upon completion of the pilot training courses for 30,000 teachers, which cost the government PLN 16 million.

searching tools, but a simple test proved this to be only 2%[13]. What contributes to this worrisome predicament is the fact that at IT lessons Polish schools are often taught on a very basic level. More advanced knowledge and skills are necessary. Since the internet is their main source of knowledge, youth should learn how to use advanced searching tools, create web sites and apps and how to code. The IT curriculum should be more intersectional and cross-sectional. Today only 41% of secondary school (*gimnazjum*) teachers apply information and communication technologies (ICT). New technologies and digital skills should be developed not only during IT classes but throughout the entire learning process.

E-school should teach from the e-textbooks which are something more than regular books in a pdf format. They are complex online services that can be edited, updated and expanded. They can adjust better to the needs of particular schools and individual students. Such e-textbooks should change the way students absorb knowledge, making it more practical and applicable outside of the school building, e.g. at home. The curriculum e-textbooks for K-12 schooling in Poland should be available under a free license and be used on any computer or mobile device. Using educational materials in a free and unrestricted way is more than crucial for an effective educational system. In the Digital Age the right to use, re-use, improve and adapt knowledge to individual needs is fundamental.

Every year the state allocates funds from the budget to paper textbooks for the poorest students (PLN 128 million in 2012). The investment in digital textbooks and hardware can facilitate a better allocation

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NEW TECHNOLOGIES MAKE CULTURE AVAILABLE TO EVERYONE AS NEVER BEFORE

of those funds. In other words, e-textbooks will be cheaper and available to everyone, including Poles living abroad. Traditional textbooks are not only expensive but also heavy and non-ecological. Open and free digital textbooks weigh less, are easier to update and adjust to various needs, for example, for disabled students[14].

The process of digitalization of the Polish schools should adopt a cohesive approach that would ensure upgrading the infrastructure and improving the competencies of students and teachers that would enable them to create and use digital resources effectively.

OPEN AND DIGITALIZED CULTURE

The development of new technologies should not differentiate between people, it should better connect them. New technologies make culture available to everyone as never before. The adequate use of the potential of technology can support creativity and engagement, it can therefore expedite work and stimulate growth. Cultural institutions should understand their role in this process while lawgivers should create a legal environment for a digitalized and open

13 https://fundacja.orange.pl/badania.html

14 http://iite.unesco.org/pics/publications/en/files/3214727.pdf

culture. According to Sanderhoff (2014), "When cultural heritage is digital, there is nothing standing in the way of sharing and reusing it. It can be sampled, remixed, embedded, it can illustrate new stories and move into new media, it can adorn books, posters, and public spaces, advance research and make ideas and creativity blossom. When cultural heritage is digital, open and shareable, it becomes common property, something that is right at hand every day. It becomes a part of us"[15].

All resources belonging to public institutions of culture should get digitalized and open to people – this would also imply documentation connected with artworks, monuments and historical sites. Disseminating collections and knowledge about them is one of the most important goals of the GLAM sector (galleries, libraries, archives and museums). Opening the collections equals higher viewership and stronger relations with the audience. The Smithsonian serves as a good example of such practices – their digitalized pieces featured on Flickr Commons had around 10,000 views, while those presented on Wikipedia around 100,000 views instead of several thousand when they were presented on the museums' websites.

With the IT revolution of the last half-century it is now possible to distribute knowledge at costs close to zero. Nowadays, the print run of a scholarly monograph published by the University of Warsaw is still a few hundred copies, not much more than a hundred years ago, yet the same book made available online can reach millions. When the BBC made its versions of the Beethoven symphonies available last year, it recorded total downloads of around 1.7 million copies in a few weeks. Promoting and expanding the public domain in several key areas would yield large benefits for society in the form of increased access, greater development of complementary goods and services, and the ability to decentralize and widen the innovation process[16]. For the liberals, an open approach to knowledge will always be superior to the one based on monopoly rights.

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THE E-ID IS NOT SOMETHING WHIMSICAL BUT A KEY TO PUBLIC SERVICES THAT MAKES LIFE EASIER AND A NECESSITY FOR MODERN EFFICIENT BUSINESS MAKING

E-ID

The e-ID is the electronic identification of citizens or organizations, for example with a view to access benefits or services provided by government authorities, banks or other companies. One form of the e-ID is an electronic identification card, which is a physical identity card that can be used for online and offline personal identification or

[15] Sanderhoff, M. (2014) "Foreword", [in:] *Sharing is Caring. Openness and sharing in the cultural heritage sector*, Statens Museum for Kunst, Copenhagen, p. 9.

[16] http://rufuspollock.org/papers/value_of_public_domain.ippr.pdf

authentication. The chip stores the information printed on the card (such as the holder's name and date of birth) and the holder's biometric photo. The card should be used for online authentication, such as age verification or e-government applications.

In 2010, the Polish government passed a law that opened the door for e-IDs in Poland. Traditional IDs were supposed to be changed in 2011. Many doubted it would happen because of the lack of executive procedures. And unfortunately, they were right. In 2011, the government moved the date to 2013. In 2012, the Ministry of Interior nullified the tender for new ID cards and announced a new law on IDs. In 2016, the Poles still cannot use e-IDs and the new government announced new deadlines.

The e-ID is not something whimsical but a key to public services that makes life easier and a necessity for modern efficient business making. The e-ID Card can be used as follows:

- as a national ID card for legal travel within the EU;
- as a national health insurance card;
- as proof of identification when logging into bank accounts from a home computer;
- as a pre-paid public transport ticket;
- for e-voting;
- for accessing government databases to check one's medical records, file taxes, etc.;
- for picking up e-prescriptions; for digital signatures.

In addition to the e-ID card, one can also use a mobile phone to identify oneself for online services (mID). In the world where mobile phone connects us all, this is even more convenient since one does not need an e-ID card reader for the computer. A mobile phone can act as a card and a card reader at the same time.

Of course, security and privacy protections always come first. The individual is losing control when confronted with activities such as: profiling, behavioral targeting, social sorting, dynamic pricing, blacklists,

> IN EUROPEAN COUNTRIES, E-VOTING WAS INTRODUCED IN PART TO TACKLE THE PROBLEM OF A DECLINE IN TURNOUT, ONE OF THE MAJOR PROBLEMS OF DEMOCRACY. IN POLAND, INTERNET VOTING SOUNDS LIKE A FAIRYTALE AND THE TOPIC IS ABSENT FROM PUBLIC DEBATE


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constant surveillance... However, when setting up architectures based on identities there are possibilities to give the users control over the information they share with services. Only a minimum of private data should be kept on the ID card itself. Lost cards shall be cancelled. Also two PIN codes should be issued, one for authentication (proving who the holder is) and one for authorization (signing documents or making payments).

E-VOTING

Internet voting is a voting mechanism that is increasingly being explored as a means to allow access to the election process for voters who may otherwise find it difficult to go to their polling station on an election day[17]. In European countries, e-voting was introduced in part to tackle the problem of a decline in turnout, one of the major problems of democracy. In Poland, internet voting sounds like a fairytale and the topic is absent from public debate[18].

Some of the arguments against internet voting are purely political and connected with the fact that old-fashioned, traditional parties will lose out with online mobilization of the young electorate. Fears that e-voting would affect the outcome of elections was a key reason behind the fact that trials within the US Army were shut down in the early 2000s. A similar debate was happening across the Atlantic in Switzerland: "The left said the Internet was just for rich people; rich people have access to the technology and are voting on the right, therefore it could be our death knell. The right said that the Internet was a new thing for young people, and the young people are more on the left, so it's not good for us"[19]. Liberals should firmly support the position of inclusion in all democratic processes, especially elections and referenda, and internet voting is a great tool to do just that. All other arguments regarding transparency, secrecy and accessibility of internet voting, can be answered by examples of the countries that use internet voting successfully.

In Poland, the need for secure online voter authentication mechanisms may be one of the biggest hurdles in implementing internet voting. It presents a challenge for many established democracies. In order for e-Voting to work, we need to have people IT-literate enough to use a government-issued certificate to authenticate themselves and be able, in general, to use computers. The system, like any other new electronic tool for administration, is expensive, so it must be user friendly, efficient and connected with other systems. This is precisely why Poland needs the e-ID card system with secure online authentication mechanisms. Creating an e-ID card and e-Voting systems separately would be worthless and breach citizens' trust towards e-voting in particular and e-administration and administration in general.

SHARING ECONOMY REGULATION

The so-called 'sharing economy' applies to car sharing, dinner hosting and the provision of accommodation to crowdfunding and the real estate market. It was pioneered by companies like: Airbnb, Uber and BlaBlaCar and is now quickly taking

17 https://www.ndi.org/e-voting-guide/internet-voting

18 A total of fourteen countries have now used remote Internet voting for binding political elections or referenda. Within the group of Internet voting system users, four core countries have been using Internet voting over the course of several elections/referenda: Canada, Estonia, France and Switzerland. Estonia is the only country to offer Internet voting to the entire electorate. The remaining ten countries have either just adopted it, are currently piloting Internet voting, have piloted it and not pursued its further use, or have discontinued its use.

19 http://www.eui.eu/News/2013/02-12-Internetvotingasuccessintwoeuropeancountries.aspx

> STATES SHOULD NOT FORBID SHARING ECONOMY PLATFORMS TO COMPETE ON THE MARKET BUT THEY SHOULD CREATE FRAMEWORKS WITHIN WHICH THEY CAN OPERATE

hold in Europe, with more than 150 million consumers expected to pool property or possessions over the next year.

According to the ING research, only 3% of the Poles have ever participated in a sharing economy (5% is the European average; 9% in the USA). 35% of Poles think their participation in the sharing economy will increase in the next 12 months (32% is the European average; 28% in the US). Therefore it is visible that the Polish market offers a great potential for growth[20].

The sharing economy is still a relatively new phenomenon and legislators will have to tackle it soon. Governments are not able to catch up with every single latest trend in technology and prepare special legal framework for them, but some legislative actions are necessary. A similar situation arose not very long ago with the introduction of eBay, or Allegro in Poland. The progress of technology cannot be arrested, nor its impact on economy and society. There is no return to the good old times without the Internet and traditional forms of buying goods and services. New technologies make it easier to start a business, lower costs of functioning and standardize services globally. The sharing economy optimizes the use of capital/goods.

The fact that the sharing economy is a new and less formalized form of conducting business does not mean it should not be regulated. Regulations must be clear for users of a sharing economy and their traditional competitors. States should not forbid sharing economy platforms to compete on the market but they should create frameworks within which they can operate.

Firstly, the issue of taxes should be regulated. Too often sharing economy companies operate outside of the VAT scope claiming that they are not offering services but *access* to services. Such entities should be partners for tax authorities in the process of working out new solutions. This is the case of the Uber's cooperation with the Estonian fiscal administration MTA just after the company started operating in Tallinn. A joint group was established to tackle the existing problems. A similar solution was successfully tested in Vilnius, Lithuania.

Therefore, in general, the opinion expressed by the European Commission seems to make perfect sense: "Collaborative economy service providers and platforms have to pay taxes, just like other participants in the economy. Relevant taxes include tax on personal income, corporate income and Value Added Tax. Mem-

[20] http://www.ing.com/Newsroom/All-news/European-sharing-economy-to-grow-by-a-third-in-the-next-12-months.htm

ber States are encouraged to continue simplifying and clarifying the application of tax rules to the collaborative economy. Collaborative economy platforms should fully cooperate with national authorities to record economic activity and facilitate tax collection"[21]. The sharing economy platforms pose many questions regarding labor regulations (qualification of legal relationships between entities), consumer protection and liability for damages, privacy laws and rules of providing services online and intellectual property. Additionally, sharing economy platforms are often established outside Poland (and Europe) and are built on foreign law (e.g. the state law of California). For Polish users of these platforms, the consequences of their acts and reliability are not clear. All these questions must be addressed.

The approach of the European Commission shall be welcomed here. Even though in its "European agenda for the collaborative economy" study the Commission fell short of issuing any hard guidelines or recommending individual regulations, it did use strong language to show its support for sharing economy businesses. Elżbieta Bieńkowska, the Commissioner in charge of the sharing economy, said that "[t]he collaborative economy is an opportunity for consumers, entrepreneurs and businesses – provided we get it right. If we allow our Single Market to be fragmented along national or even local lines, Europe as a whole risks losing out".

There are quite a few examples of negative consequences of unregulated sharing economy platforms in Europe, and other parts of the world. New York, Berlin, Reykjavik, Barcelona are campaigning against Airbnb. Courts in France and Germany rule against the Uber service despite the European Commission recently issuing guidelines in support of the car transport app. Several European states have put legal obstacles in the way of Uber's expansion, the taxi service has also faced fierce opposition in other parts of the world[22]. Meanwhile, the Spanish court has asked the European Union's Court of Justice to decide whether Uber is a technology application or an old-fashioned transport company that would require far stricter regulation[23]. Polish taxi drivers also staged protests against Uber. Hundreds of them caused tailbacks in Warsaw by driving at a snail's pace protesting against competitors including the controversial ride-sharing app. Nevertheless, it seems that Poland might become a safe haven for Uber – Polish government officials support a liberal option here (at least here!), which is good news. But the government should not believe that "it will somehow work out on its own". It will not. Outdated laws must be changed. All kinds of businesses must get acquainted with the new rules and practices and apply them carefully. And most importantly, the proposed rules must be fair, which is the biggest challenge.

FREE MEDIA

The digitalization of media in Poland is a fact. It is also the future. The independent and pluralistic media are the most important from a democratic angle. Unfortunately, Poland under the Law and Justice government has a big problem with it. The government's media reforms

[21] http://europa.eu/rapid/press-release_IP-16-2001_en.htm

[22] Protests by taxi drivers in Jakarta, Indonesia, erupted into violence earlier this year, while Brazil initially moved to ban Uber outright before the law was overturned, sparking anger from taxi drivers in Rio de Janeiro.

[23] Anticipating such court decisions, Uber has launched an upmarket alternative service called Uber X in several European markets which requires professionally licensed drivers.

gave the treasury minister the power to hire and fire broadcasting chiefs. It dismissed state media management teams and installed replacements. The reforms gave more latitude to control state-run television and radio. Jacek Kurski, the former Law and Justice MEP and spin doctor, was appointed the new head of the public television. Hundreds of journalists were fired, and replaced by employees from the connected to the ruling party right wing and ultra-catholic media[24]. *Wiadomości*, the flagship news program of the Polish public TV (TVP), was changed into a mouthpiece for governmental propaganda that is reminiscent of the worst excesses of the communist era. A similar change has affected the news channel of the public TV: TVP Info. The changes to Poland's media landscape came to international attention at the NATO summit in Warsaw when unprecedented critical remarks by President Barack Obama about the state of Poland's democracy were edited out of the state-owned TV news broadcasts[25].

The goal of Law and Justice's new media strategy is not to expand its audience, which, if anything, is falling steeply (*Wiadomości* has shed 750,000 viewers since the beginning of the year; TVP saw a 19.8 percent fall since the new leadership took over). The strategy is purely political, and it seems to be working. The party's numbers are soaring above rivals in opinion polls.

” THE FRAGILE AND STILL EMERGING POLISH DEMOCRACY AND CIVIL SOCIETY REQUIRE PLURALISM AND ACCESS TO INFORMATION AND CULTURAL/ SOCIAL CONTENT IN THE TRADITIONAL AND THE NEW MEDIA. WE CAN ACCOMPLISH THIS GOAL ONLY WHEN POLITICAL MAJORITIES DECIDE NOT TO TREAT PUBLIC MEDIA AS TROPHIES

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[24] See:http://www.ft.com/cms/s/0/729e39d0-ae31-11e5-993b-c425a3d2b65a.html#axzz4Gq2UUppu; http://wyborcza.pl/1,87648,19908396,jak-sie-robi-wiadomosci-za-kulisami-dobrej-zmiany-w-sztandarowym.html

[25] Viewers of private television TV channels heard Obama, who was here for the NATO summit, say: "I expressed to President [Andrzej] Duda our concerns over certain actions and the impasse around Poland's Constitutional Tribunal." Poles who turned into the public TVP only heard Obama's comments praising Poland.

> THE DIGITAL AGENDA MUST BE DIVERSE BECAUSE THE ISSUES ARE VERY COMPLEX AND CANNOT BE REDUCED TO SIMPLE SLOGANS, LIKE INTERNET VOTING AND E-TAXES

It is feared that the government will now look to bring private broadcasters and publishers to heel, and it is already eyeing foreign-owned media in Poland. In a recent ranking by the Reporters Without Borders' (RSF) World Press Freedom Index, Poland dropped from the 18th place in 2015 to 47th in 2016.

In June 2016, Law and Justice's majority in the Parliament approved the setting up of a National Media Council (RMN), paving the way for wider changes in the state-owned media. The Council would appoint the management and supervisory boards of the state-owned broadcaster TVP, Polish Radio and the PAP news agency. RMN will compete with the National Broadcasting Council (KRRiT), a body established by the Constitution as a supreme state body in charge of broadcasting matters, freedom of speech and broadcaster independence, as well as an open and pluralistic nature of radio and television.

Poland cannot afford such a situation. It needs public media to be independent from politicians and business people. It needs public media with a proper budget and assured sources of income. The fragile and still emerging Polish democracy and civil society require pluralism and access to information and cultural/social content in the traditional and the new media. We can accomplish this goal only when political majorities decide not to treat public media as trophies. Impartiality and professionalism of the National Broadcasting Council and the Office of Electronic Communications[26] guarantees further digitalization of media, social inclusion and high standards of journalism and of media content.

CONCLUSIONS

The digital agenda proposed above is rather diverse: Cybersecurity, Efficient E-Administration, Open Government, Digi-

[26] The national regulatory authority for the market of telecommunications and postal services.

tal Competences and Media Education, E-School and E-Textbooks, Open and Digital Culture, E-ID, E-Voting, Sharing Economy Regulations, and Free Media. Some of the objectives were formulated on a very general level, while others are very specific. Some of them can be reached easily with some financial investments, others require a long-term strategy. The provided overview combines demands concerning equipment, infrastructure, legislative changes but also education and challenging attitudes. My digital agenda is tightly connected with the basic standards of democracy. Its goals can be reached only with more rule of law, but the rule of law will be secured by the agenda. The digital agenda must be diverse because the issues are very complex and cannot be reduced to simple slogans, like internet voting and e-taxes.

At present, Poland is standing at the crossroads. We can open a new chapter in our history, a chapter of modernization, fast development and improving the quality of life of the Polish citizens. **Poland has no other choice but to join the digital revolution led these days by countries like Estonia**. Paradigms of the e-society around the world are led by the liberal government in this post-Soviet state, the sheer size of which allows for experimentation and the implementation of the most advanced and enviable solutions. We can learn from Estonia and build on its experience.

It is clear that the digital agenda does not look 'sexy' enough for many parties. Talking about abstract concepts of technological advancement, hi-tech driven productivity and a labor market of a sharing economy seems less attractive than social spending and new benefits symbolized by the Law and Justice's flagship "500+" program (PLN 500 per month for every child in a family). But scrutiny of the digital agenda will show that the digital approach makes life easier. In Estonia, taxes take less than an hour to file, and refunds are paid within 48 hours. By law, the state may not ask for any piece of information more than once, people have the right to know what data is held on them and all government databases must be compatible. In all, the Estonian state offers 600 e-services to its citizens and 2,500 to businesses.

A digital state is a state more efficient and friendly. It is a better organized state, less expensive for the taxpayers and a country where every citizen feels like an active participant. The digital state will accelerate Polish entrepreneurship and diligence we are so proud of. This new unchained energy will allow us to compete with the most advanced economies by using the power of our brains, and not only the power of our hands. ●

*

MONIKA
ROSA

Member of Polish Parliament of the Modern Party (Nowoczesna) and Secretary of the parliamentary group. Member of the Standing Committee of Energy and State Treasury in Poland. An active member of non-governmental organizations, e.g. Projekt: Polska Association

Airbnb: A Convenient Scapegoat for Budapest's Property Squeeze

*
ESZTER
NOVA

Tourism is traditionally limited to the confines of highly regulated and high-barriers-to-entry sectors – such as the hotel industry. It has its beneficiaries and its negative externalities (noise, parking, drain on public services, etc.). The sharing economy unleashes the price effect of tourism on properties that would otherwise stay residential. By lowering the barriers to entry for hosts Airbnb does provide an opportunity for landlords to reap some yield on their property value – which should not be taken away from them just because the hotel lobby feels overregulated in comparison.

> ”
> AIRBNB CONSOLIDATES THE OPPORTUNITY COST OF HOUSING TOWARD THE HIGHER END OF THE PRICE SCALE - GLOBALLY

However, while Airbnb and the arrival of the sharing economy to the Budapest property market has provided owners with opportunities, it has also linked Budapest homeowners to the global tourism bloodstream – in a new way. Airbnb consolidates the opportunity cost of housing toward the higher end of the price scale - globally.

Complaints regarding Airbnb can be split into two distinctive parts. One part is regarding noise, disruption of local communities and other externalities. These complaints are legitimate, but relate to tourism in general, not to the sharing economy in particular – as evidenced by the fact that some heavy tourist destinations are introducing measures against them as well.

The economic impact of the sharing economy on the Budapest property market are as follows:

1. *It caters for a more affluent demand than the long-term, local tenants, thus pushes opportunity costs higher.*

This impact is, however, of a short-term nature. Since around 2015, a massive gold rush seems to have appeared in Budapest. But the get-rich-quick Airbnb market is unsustainable and will cool down (especially in the highly speculative rent-to-let sector).

2. *More troubling impact is that the gold rush puts extra psychological pressure on an already overheated property market – as evidenced by the gap between offer prices and the number and price of actual deals closed.*

This market rally, however, is not the result of Airbnb – even if the media is fixated on that. As it will be later pointed out in detail, the property market boom is a result of the combined impact of a coordinated government effort to increase property prices, a new subsidized loan program for home buyers, and an investment rush into the property market from both locals and foreign investors. This, in turn, is the consequence of an ailing real economy, stock markets, extremely low interest rates, and cheap mortgages.

3. In the long run, Budapest property market will be permanently changed – not due to the current wave of sharing enthusiasm, but the regulatory light shed on the commercial property sector.

Long-term property rentals are in the gray zone of the Hungarian economy for historic reasons. Statistics are unreliable and taxation is unenforceable. This, in turn, leaves tenants in a peculiarly shaky position. Airbnb can rectify that. It has brought this market into the forefront of authorities' attention – triggering retroactive tax inspections and a whitening of the rental market in general. In the long run, taxes built into the rental prices will push prices up for long-term tenants as well. Moreover, it also provides the sector with much-needed transparency.

> LONG-TERM PROPERTY RENTALS ARE IN THE GRAY ZONE OF THE HUNGARIAN ECONOMY FOR HISTORIC REASONS. STATISTICS ARE UNRELIABLE AND TAXATION IS UNENFORCEABLE. THIS, IN TURN, LEAVES TENANTS IN A PECULIARLY SHAKY POSITION. AIRBNB CAN RECTIFY THAT

THE SIZE OF THE RENTAL MARKET

According to the National Office of Statistics, 89.7% of Hungarians lived in owner-occupied properties in 2010[1]. That is a huge number – but unlikely to be correct. The real number should be more in line with other European countries. According to the Eurostat the EU-28 average was near 30% – with 19.1% of the population being tenants with a market price rent, and 10.8% in reduced-rent properties or in free accommodation in 2014[2].

According to informed estimates by the biggest property agent website, ingatlan.com, there can be 100-200 thousand properties on the residential rental market in Hungary. It is hard to get any better data from official statistics, due to the huge share of the black market rentals, avoiding taxes and

[1] Társadalmi helyzetkép (2010) by the Hungarian Office of Statistics (KSH). Available [online]: https://www.ksh.hu/docs/hun/xftp/idoszaki/thk/thk10_lakas.pdf

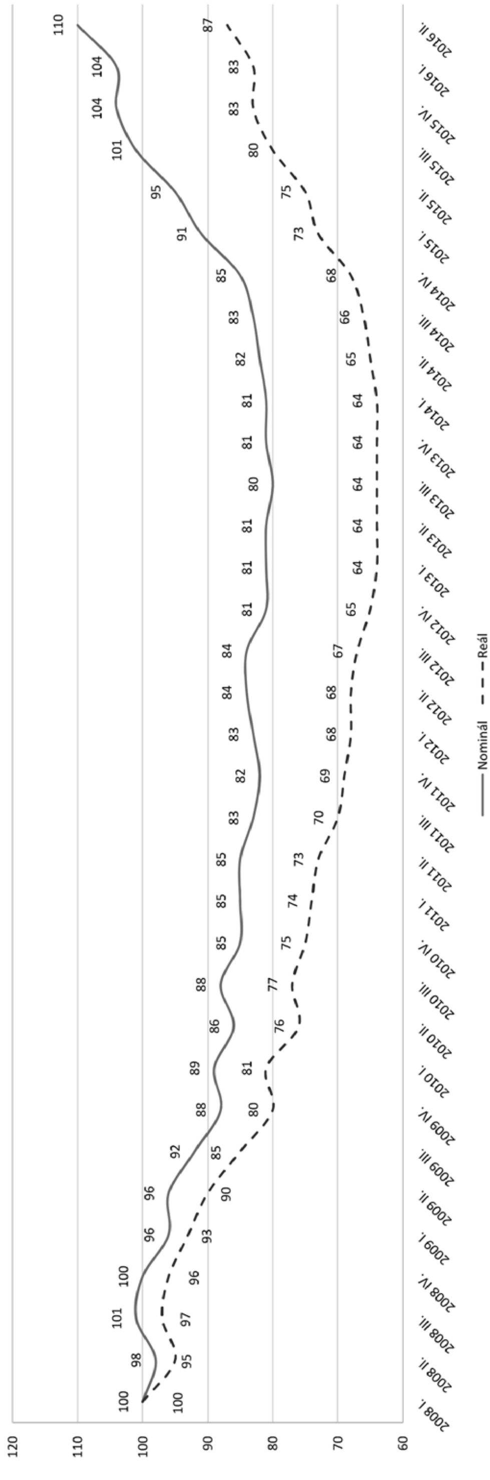
[2] Housing statistics of Eurostat (2014). Available [online]: http://ec.europa.eu/eurostat/statistics-explained/index.php/Housing_statistics#Tenure_status

not registering tenants to avoid legal consequences. Countrywide, the average price is around 100 thousand forints (300 euros), while it is around 140-160 thousand forints (500 euros) in Budapest – without bills. The size of the residential rental market as of 2016 is estimated at around 144-240 billion forints (465-700 million euros) – most of it on the black market[3]. According to the latest census, there are 383 thousand empty properties in the country, but mostly in areas where economic opportunities are scarce, rendering these properties largely unmarketable.

Supply and demand of rental properties have both grown in 2015. According to ingatlan.com, 170 thousand private individuals were looking for tenants in 2015 – and that is not the complete number. In 2016, the market has grown even further, with 20-75% more advertisements for homes for rent posted compared to the same months the previous year.

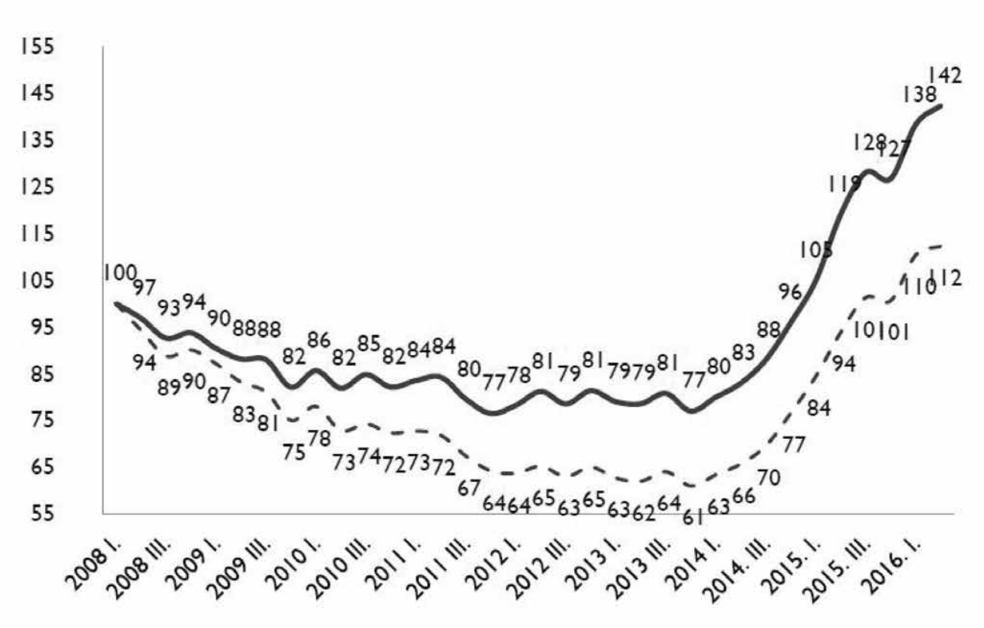
Online accommodation rental site Airbnb has already reached 8,000 home listings in Hungary, with some 3,500 of these located in Budapest in August 2015. Since then, they have ceased to give comprehensive data, but it can be assumed that some of those listings were not entire apartments. Also, if anyone has spent any time looking for an Airbnb host, they will know that the number of amateur and inactive hosts can be exasperating. They are not very responsive and/or amateurish hosts that hardly mean a competition to either hotels or long term tenants. 2015 was also a boom year when hype around Airbnb reached Budapest and the gold rush was most pronounced in the media. Anyone, who had not done so yet, started thinking about opening an Airbnb.

Figure 1. House Price Index - Hungary (2008-16)



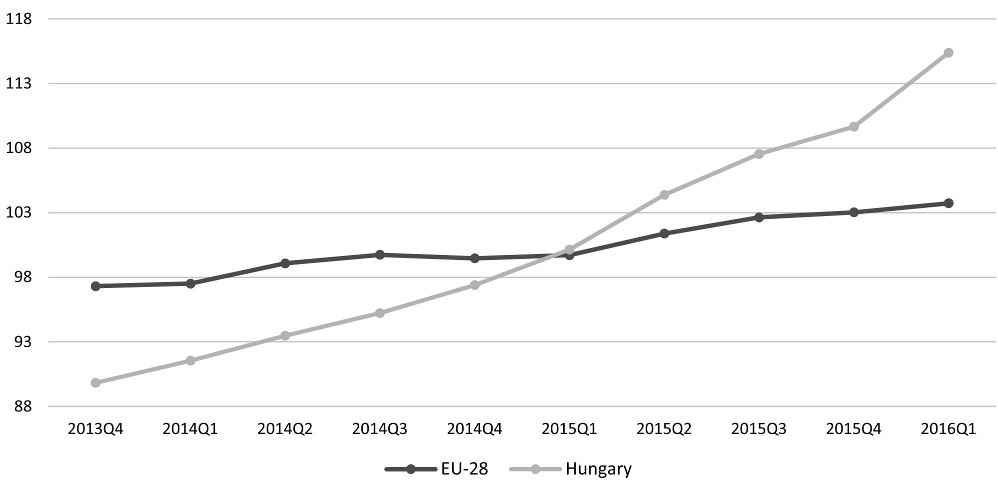
[3] http://www.budapestingatlan.info/article/a-berlakaspiac-oriasi-uzlet-240-milliard-forintot-is-felolelhet-510

Figure 2. Budapest House Price Index (2008-16)



Source: Duna House

Figure 3. House Price Index EU-28 vs. Hungary (2010 = 100%)



Source: Eurostat

The market was heavily oversaturated and some of the listings were clearly unrealistic. In the absence of clearer data, downtown Budapest must have had around a thousand or so Airbnb listings of entire apartments at the height of the mania. Add that to the number of investment buyers and we have a problem.

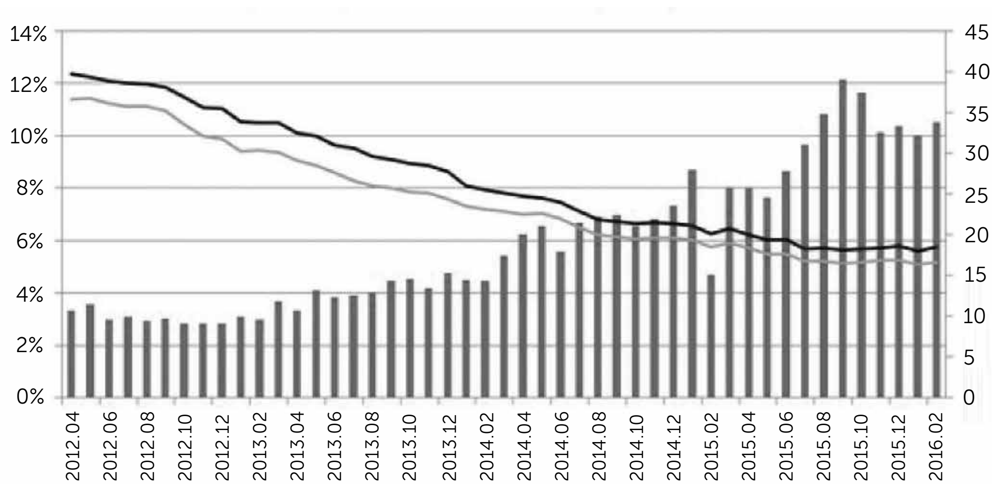
The opportunity cost of renting out a downtown property has indeed risen. But Airbnb is only a part of the story. Price pressure is coming from many powerful sources. The overall mania is fueled the government-induced buying boom, compounded by very real buying pressure from foreign investors and property funds seeking return on their investment in a low-interest environment.

San Francisco rental prices will not come down because Budapest prices are lower, but Budapest prices may converge towards the higher price end. Workers are not geographically flexible (yet), but tourists with higher purchasing power are. Which is also the reason anyone with any money to spare tries to buy a second property for investment and rental in Hungary.

MONEY RUSHING INTO THE PROPERTY MARKET IS A MUCH BIGGER FACTOR

Yes, Airbnb puts upward pressure on local rental prices inasmuch as it consolidates opportunity cost of renting an apartment towards the global higher end. But that is not the whole story. In fact, that may be a small part of the story. To understand the whole depth of the price pressure one must look at the general investment and interest rate environment, not just in Hungary, but globally. Yields of the property market have been beating returns on any other form of investment – attracting any liquid capital to the underpriced Budapest property market.

Figure 4. Forint Mortgages in Hungary (2012-16)
Interets (LEFT axis) and Volume in bn forints (RIGHT axis)



Source: Central Bank

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> YEARS AFTER HOUSING PRICES IN MOST EUROPEAN CAPITALS REBOUNDED FROM THE FINANCIAL CRISIS, BUDAPEST'S MARKET STARTED TO SHOW SIGNS OF LIFE IN 2015

Years after housing prices in most European capitals rebounded from the financial crisis, Budapest's market started to show signs of life in 2015. Hungarian and foreign investors were buying apartments at prices still below their pre-crisis peak and in the hope of robust returns.

Home prices in Hungary rose for the first time in five years in 2014 after the market, then-dominated by Swiss franc mortgages, collapsed when the forint plunged in 2008. Prices in Budapest soared 13% in the first quarter of 2015 compared to the same period in 2014, according to Duna House, a real estate agency[4], while Eurostat recorded a similar increase to the first quarter of 2016 (15.2%).

According to Eurostat, Hungary has seen the greatest annual increase in the house price index year-on-year among the 28 member states of the European Union in the first quarter of 2016 – followed by Austria (13.4%)[5].

Interest rates are still low, pushing savings out of banks and into the property market, while also allowing for low mortgage rates. The government's first home buyers' policy has also pushed mortgage rates lower. Interest rates on forint-denominated mortgages have not been this low since the 1980s.

According to Duna House, 42% of Budapest property transactions were reported for investment purposes in 2016 – while 22% were first home buyers, and 15% upsizing.

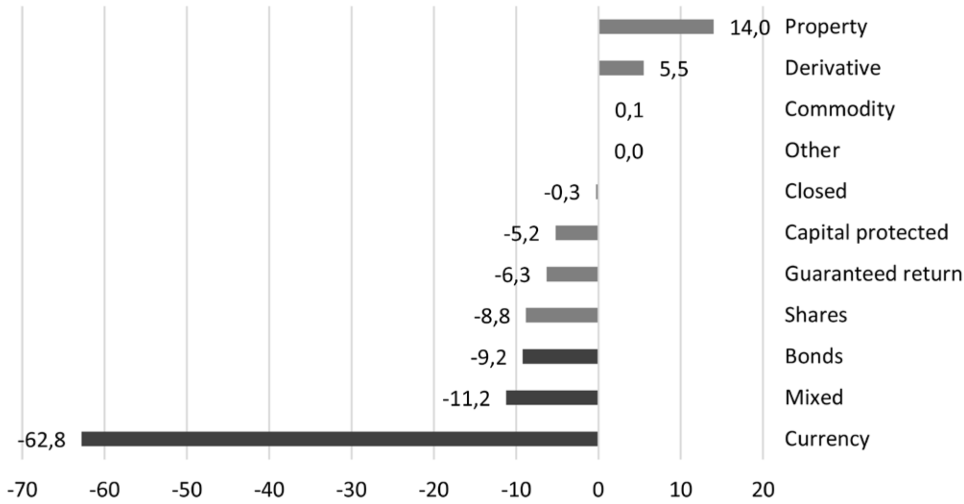
This effect is combined with the government's new subsidized home making loan policy that would provide families with 10+10 million forints (approx. 70 thousand euros) in loans and subsidies to buy a new home in exchange for three children. The conditions for the subsidy are Byzantine and ever changing, but the interest is enormous. Until July 2016, 32 billion forint (100 million euros) worth of subsidies and loans have been applied for in this scheme. The price hike had appeared literally overnight in asking prices – even before any details emerged about the loans, let alone the applications could have gone through. A few months in and home makers are suffering under the regulatory burden while applying for the free money – in the meantime, the 20 million forints it promises is losing its purchasing power rapidly.

As a consequence of these three factors, the average asking price per square meter has increased from 220 thousand forints (700 eu-

[4] Duna House report. Available [online]: https://dh.hu/barometer.

[5] Source: Eurostat EU House Price Index. Available [online]: http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do

Figure 5: Investment funds are the most active buyers of commercial property in Budapest



Sourec: bamosz.hu

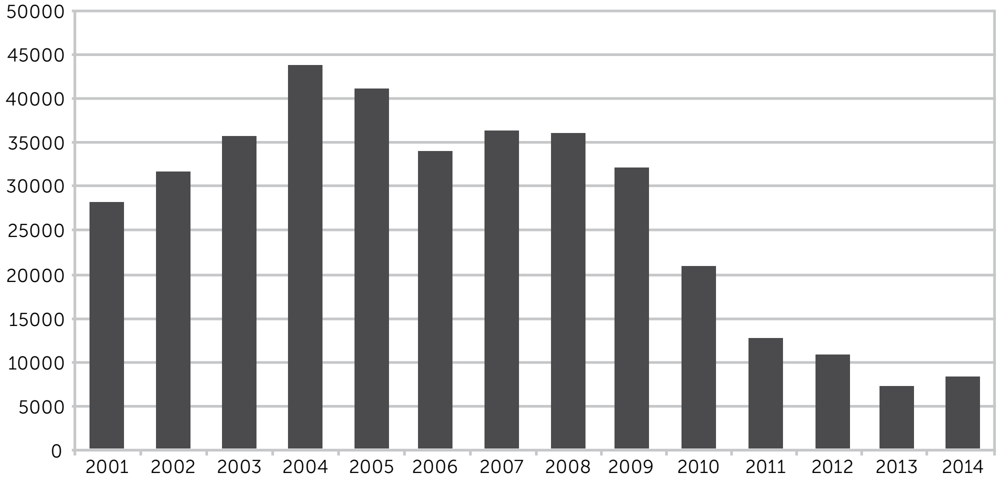
ros) to 312 thousand forints (1000 euros) on Hungarian average – a 30% increase between July 2015 an July 2016 – but asking prices have grown even more in sought-after areas, such as the capital. The most popular districts within Budapest (districts 5., 6., and 7.) have seen an increase of over 40% year-on-year between 2014 and 2015, according to otthonterkep.hu, a property investment agent, while the next most popular ones (district 8. and 9.) both became over 30% more expensive per square meter during the same period.

In 2015, Bloomberg quoted government figures and property agents on the glory of investing in Budapest. "*Central Budapest is the hotspot for investors offering rentals to visitors, whose numbers rose 15 percent since 2010, government data show. Investors can earn a 20 percent yield on short-term rentals in central Budapest and 5 percent on long-term leases*"[6]. The article also helpfully points out that "*Budapest real estate was rated the top*

> WHILE THE GOVERNMENT IS DEAD SET TO CHASE OUT INNOVATIONS OF THE SHARING ECONOMY – MOST RECENTLY UBER – THEY ARE APPEARING TO ACTIVELY PROMOTE LANDLORDING AND HOME OWNERSHIP THROUGH VARIOUS POLICIES

[6] http://www.bloomberg.com/news/articles/2015-05-20/investors-reap-20-on-budapest-rentals-as-tourism-grows

Figure 6. New homes built in Hungary (2001-2014)



Source: National Office of Statistics (KSH)

long-term investment among 35 European cities by globalpropertyguide.com in 2014, based on rental yields, transaction costs and regulations". With press like this, it is hardly surprising that the property market boomed even more in the year since the report came out.

However, rent-seeking investments, such as properties, are about the least innovative and productive ways of making money. While the government is dead set to chase out innovations of the sharing economy – most recently Uber – they are appearing to actively promote landlording and home ownership through various policies[7]. Alternative investments, such as the real economy languish in the meantime.

PROPERTY FUNDS SEE UNPRECEDENTED INTEREST

According to the regular survey of GKI, a Hungarian economic think tank, expectations about the performance of the housing market in Budapest are at 9-year high – fueling interest in investment[8].

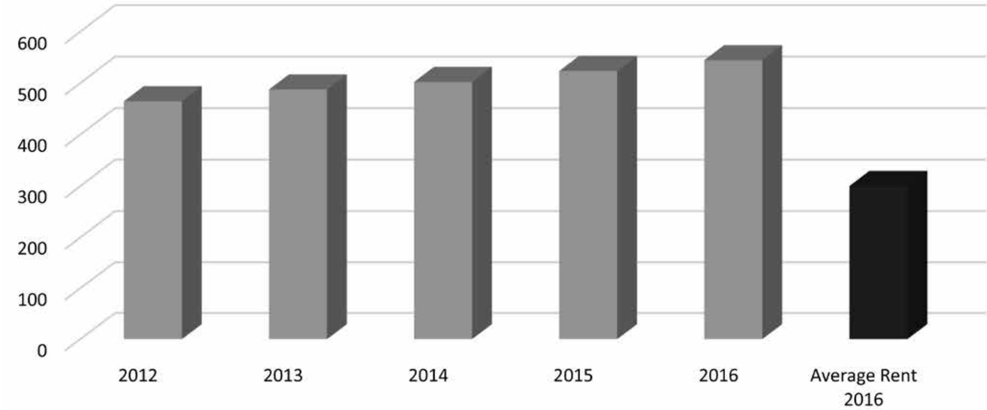
According to the Hungarian central bank (MNB), in the last quarter of 2015 Hungarian investment funds handled almost 6000 billion forints, and 11.6% of their investments were on the property market according to bamosz.hu. The property funds available to the public have seen a boom in the last years. In August 2012, Hungarian property market investment funds handled less than 350 billion forints, the amount grew to 523 billion by August 2015.

Record low interest rate environment is chasing money out of banks and even stocks, and into the property business. The biggest losers among funds were the ones investing in stock, with 63 billion pulled out in the last couple of months, and another 20 billion forints left funds trading in bonds. Property-based funds,

[7] Members of government and the ruling party also show an extraordinary interest in everything real estate. Scandals and accusations about shady property deals and cronyism galore, while the central bank also spends an unprecedented amount of money on buying up property – not just in Budapest, but castles and villas on the countryside.

[8] http://www.gki.hu/language/hu/2016/02/08/kilenceves-csucson-a-gki-mgyosz-ingatlanindex/

Figure 7. Average monthly net wages vs. rent (without bills) in EUR – countrywide



Source: National Office of Statistics (KSH)

however, have seen 14 billion influx during the same period according to bamosz.hu. This adds to the buying pressure by funds, in order to keep their relatively high returns. [See Figure 5]

Even small investors are struggling to cash in on the current boom and try to invest in real estate funds. Form August 2016, the first fund is opening with an overwhelmingly residential property portfolio. Apart from actually buying and managing a property, small investors can now invest for as little as under 200 euros a share.

FOREIGN CAPITAL SEEKING A HAVEN IN EUROPE

Before the crisis in 2008, it was the Spanish and the Irish buying up Budapest properties in bulk – then that demand collapsed alongside the mortgage market of their home countries. Since 2014 investors make up a growing pawrt of the housing market again. In April 2015, 32% of buyers said they purchased housing in Budapest as an investment, up from 21% in 2014, according to one agency.

Talking to agents and property owners in downtown Budapest, there is plenty of anecdotal evidence of another trend. Foreigners, most visibly Chinese investors buy properties by the dozen – partly as a safety bet from turbulence at their home markets, partly as a result of the government's press campaign to push Budapest properties to foreigners, and last but not least, their generous residency permit program, that sells residence permits to non-EU citizens in exchange for buying at least 300 thousand euros worth of government bonds – and investors follow up from there[9].

As a rule, the more developed and predictable a property market is, the lower the return on investment. London, for instance, is a very good example with its 3-4% expected annual returns in the inner boroughs – despite the massive prices. Outer districts,

[9] The program has been recently revealed to sell an instant resident permit to basically anyone, who buys 300 thousand euros worth of government bonds through the offshore companies of certain government-friendly lawyers. (Scandals also implicated the mayor of Budapest's 5th district, which is the epicenter of the property boom.) 3647 residence permits have been sold that way since 2013 (to the end of June 2016), 85% of them to Chinese, 7% to Russian clients. Source: HVG.hu. Available [online]: http://hvg.hu/itthon/20160510_Magyarorszag_varja_a_betelepuloket http://hvg.hu/gazdasag/20160209_letelepedesi_kotveny_offshore_Rogan_Wiedemann

however, can see better yields – and so can less developed markets, such as Budapest. The Hungarian government commits everything in its power to attract foreign money into the Budapest property market. The government's official website dedicates a segment to data on double-digit returns and catchy descriptions on "Bauhaus architecture" and "ridiculously cheap" places downtown.

The price drop following the financial crisis, coupled with the weakness of the forint and low interest rates globally have come together to create the perfect storm – and prices have seen an unprecedented rise. Property price waves tend to start with increased foreign interest, followed by the locals catching up – and ends with every liquid asset locked down in properties. With the current rush towards residential property by investment funds this seems to be the case – questioning the sustainability of the model. Not to mention that the current boom is not the result of neither demographic pressure, nor economic growth – merely relies on tourism.

Statistics only count foreign investors outside of the EU – data on intra-EU investments are not available – but 2015 has seen a 50% rise in these kind of investors (to near 4000 transactions), adding up to more than 2% of all transactions. In downtown Budapest, the number is closer to 20% – not including the transactions by companies and other legal entities (foreign or Hungarian) owned by foreigners[10]. In 2015 31% of transactions to non-EU foreigners went to Chinese, another 22% to Russians. 69% of these transactions were concentrated in the capital[11].

[10] http://www.portfolio.hu/vallalatok/lakas/tizesevel_veszik_a_belvarosi_lakasokat_a_kinaiak.232778.html

[11] http://www.mfor.hu/cikkek/befektetes/Racuppantak_a_kulfoldiek_a_pesti_ingatlanokra.html

Just as the above macroeconomic factors, these global financial developments are also out of the control of an average Hungarian buyer or tenants – yet they are expected to pay the price. Finally, the absence of new homes being built compounds the bullish effect of the above factors.

THE LOW PURCHASING POWER OF LOCALS

The low purchasing power of locals is another field the government would rather not have us discussing – even though that has more to do with Hungarians' inability to afford a place in Budapest than the few hundred Airbnbs downtown.

As of 2016, the average take home pay in Hungary is 516 euros according to the Office of National Statistics. Naturally, there are regional differences and Budapest comes top, but it still puts a break on the rental price locals are able to pay.

The average rent countrywide is 300 euros (plus bills), so very nearly the same as the average take home pay, which is 516 euros. In Budapest, average rents are over 500 euros (plus bills). While rental prices have grown up to 30-40% in certain parts of Budapest year-on-year between early 2015 and 2016, net wages have only grown by 6% in the meantime. That is not sustainable.

Due to the low purchasing power of permanent tenants, it is highly questionable whether the Airbnb business model is sustainable in the long run and tourism alone can keep delivering these returns. The model may not be sustainable – especially if we calculate with the solid emigration pattern. Rising rents in economically viable regions and the capital add to the already mounting motivation to look for a better paid future elsewhere. If not even housing is cheap in Hungary, what stops people

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> IF NOT EVEN HOUSING IS CHEAP IN HUNGARY, WHAT STOPS PEOPLE FROM LEAVING?

from leaving? That, in turn, will leave Hungary with low-income workers and relatively affluent tourists – and rent-seekers ever more desperate to make it work.

If wage levels do not catch up with European standards, Budapest cannot sustain this property boom. Hungary is already suffering from decreasing competitiveness – because even though there are plenty of unemployed, even low-skilled sectors suffer from brain drain from abroad. But that is a problem for another paper.

THE LONG-TERM BENEFITS OF AIRBNB

The long term benefit of a service such as Airbnb would arrive from an unexpected place: from the whitening and transparency of the Budapest rental market. There are no reliable official statistics neither on residential, nor on touristic rental in Hungary. The existing numbers are based on self-reporting – and that is not incentivized. Not even the tax authority has an estimate about the size of the market – hence the estimates of property agencies are used here. The National Office of Statistics knows only about a tiny percentage of rental properties in Hungary and 88% of the population supposedly lives in an owner-occupied property. That is not a realistic assumption. At this moment as many as 10 thousand properties are listed for rent in Budapest on the biggest Hungarian real estate portal – and the actual size of the market must be multiple times this number.

The black market in property rental has a historic and an economic reason. Keeping it between the landlord and tenant saves paying taxes for the landlord – which would mean extra rent for the already squeezed tenant. The bureaucratic framework of renting out an apartment is not only clunky, but subject to unpredictable changes – often politically motivated. But once a property is registered as commercial, the enduring attention of the tax authority is all but guaranteed. (And more often than not, even their retroactive attention.)

In the absence of regulation of residential rentals, the rights and responsibilities of tenants and landlords are vague and regulated only by the civil code. That may often give more rights to tenants – provided the case goes through a lengthy court process – but no one is quite sure. It is compounded by urban legends about landlords being stuck with long-gone tenants' name in the property register as their legal address, caught by tax authorities or blocked from evicting tenants due to (again, anecdotal) tenants' rights. (There is literally zero search result on Google for "tenants' rights" or "tenants' alliance" in Hungarian, but using search terms such as „Budapest property prices" had earned this researcher weeks of advertisements for stellar yields from investing in Budapest rental properties.)

As a consequence, many are not only outpriced from buying a property, but even find it impossible to rent. Not to mention tenants with children, who are avoided by landlords due to similar concerns about their rights. On the administrative side, there is a farcical situation where tenants have registered legal residence somewhere else, typically with their parents – often hundreds of kilometers away. The quickest way to becoming legally homeless is not having a friend or family member that allows one to be registered at their address – while living in a rental home.

Unlike Airbnb, a typical rental contracts are still virtually unenforceable in Hungary. Tenant rights are scarce and in the absence of a regulation. Contracts are unenforceable because they are usually hidden from authorities. Landlords avoid registering their tenants and no one has a clear idea about rights and responsibilities.

But it is ultimately an untenable situation with massive social impact. The uncertainty of those, who cannot afford to buy not only drives the quality of the housing stock down – it impacts the life choices of entire generations. In the absence of a rental code or any association of tenants, renting with a child or even a pet is a challenge – even when the couple can afford the asking price.

The solution to this status quo might have come from an unlikely source: Airbnb. **Tax men have never shown a propensity for investigating the tax status of Budapest's rental market. With the appearance of the sharing economy and with the government's appetite for a cut of the profits that might change**. In the short run this whitening of the market will hurt tenants by increasing the prices even further. But the unintended, long-term consequence of this may be a more transparent rental market with more defined tenants' rights – and that would be a major step forward.

In the long run those landlords who are forced to whiten their business will end up on the commercial property register – and with a habit of complying with the law. In combination with tenants' rights this may consolidate the Budapest housing and rental market.

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> TENANTS' RIGHTS MAY OR MAY NOT BE IN THE MAKING, BUT THE GOVERNMENT MADE SURE TO TAKE A CUT OF AIRBNB INCOME

The government's answer to the entire Airbnb-triggered controversy so far was: more taxes and more enforcement. They approached the problem from the perspective of tourism – as opposed to that of residential rentals – which is completely misguided and aims to take a cut from the profits, rather than easing the pain of long-term tenants.

The government's plan is to introduce an extra tax on 1500 forints (5 euros) per square meter for rental apartments is targeted at Airbnb profits[12]. With the average rent in Budapest which comes to about a 10% of rental income – on top of the usual taxes. Tenants' rights may or may not be in the making, but the government made sure to take a cut of Airbnb income.

CONCLUSIONS

Issues surrounding Airbnb can be split into two distinctive parts worldwide. One part is regarding externalities. These complaints are legitimate, but relate to tourism in gen-

[12] http://hvg.hu/gazdasag/20160413_Uj_adoval_sujtana_a_kormany_a_lakasberbeadokat_1500_forint__negyzetmeter

eral, not to the sharing economy in particular. The second issue is regarding price pressure on the local residential rentals.

However, when we look at the housing price rise in Budapest, it was only partly about the unleashing of tourism on the residential property sector. Actually, it was the smaller part. The current property boom is also actively fueled by the government. Apart from visible marketing efforts to advertise the "undervalued" Budapest properties to more affluent foreign buyers and investors chasing yields in a low-interest environment – the Hungarian government also provides affluent non-EU citizens with residence permits for buying 300 thousand euros in government debt. These mostly Chinese and Russian buyers then appear on the Budapest property market buying up properties in bulk for investment.

Another government policy driving prices up and fueling the frenzy is a subsidized loan scheme aimed at first home buyers in exchange for delivering three children. Massive interest and bubble-like asking price hikes followed even the announcement – and a hundred million euros worth of applications have been submitted since. Building of new homes has also been sluggish for years, adding to the price pressure in economically viable regions.

All these have naturally filtered through into the rental markets that experienced even bigger price rises. On top of this, Hungarian residential rentals are largely on the black market – adding to the plight of tenants. But rather than creating a tenants' code, the government has intervened from the tourism angle, making sure to take a cut from Airbnb profits.

But Airbnb can still contribute to the improvement of the sector by shedding some regulatory light and indirectly helping to untangle the ignorance surrounding tenants' rights and responsibilities. But that only appears in the long run.

The other problem to solve is the low real wages in Hungary. While it is government policy to keep wages down to attract manufacturing and processing industry jobs – it has already hurt the economy by pushing out workers and retaining only the unskilled and unemployed. Average net wages compared very poorly to average housing costs – even before the current boom.

The ultimate problem would be adjusting the flexibility of labor to that of capital and tourism – and not just in terms of migration, but through the wide scale adaptation to telecommuting and innovation. ●

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Sharing Economy in Lithuania: Lessons of Success and Failure

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DOMINYKAS
ŠUMSKIS

The sharing economy is becoming the next big thing. To recap briefly, it is a type of business model where the online platform enables buyers and sellers to communicate directly. The market players are usually (but not exclusively) people who work on a freelance basis. In addition, digital platforms usually provide various tools like direct contact options, feedback and payment systems, etc.

> IN 2015, THE GROSS REVENUE IN THE EUROPEAN UNION FROM COLLABORATIVE PLATFORMS AND PROVIDERS WAS ESTIMATED TO BE EUR 28 BILLION

According to the European Commission, in 2015, the gross revenue in the European Union from collaborative platforms and providers was estimated to be EUR 28 billion. In the United States, nearly 1% of adults actively earn income from the online platform economy. Nevertheless, compared to the last three years, this number has increased tenfold. The total number of people who have used sharing economy platforms has increased forty seven times in the last three years. Even though the numbers are still not significant, the recent increase has been immense. Taking this and other factors into consideration, the European Parliament estimates that the potential economic gain from the better use of capacities enabled by the sharing economy is EUR 572 billion in annual consumption across the EU.

The first sharing economy businesses appeared in Lithuania only a couple of years ago. Therefore, there is not enough economic data to evaluate how significant it has been to the Lithuanian economy. The sectors that the sharing economy business models emerge in are rather different and completely separated. This has led to both – different attitudes of the governmental institutions and different paces of development. In order to see how sharing economy markets operate, an analysis of the relationship between the governing bodies and the sharing economies is much needed.

TAXI REGULATIONS IN LITHUANIA

The main passenger transporting companies in Lithuania are taxi companies. Taxi drivers and their cars are subject to a certain set of rules and requirements. As in most of the countries, special marking signs are required for cars. These include a taxi sign which has to be placed on top of a car and has to be lit while the car is being used as a taxi. A car must also have a specific yellow and black marking on the outside of it. Requirements for taxi cars also include specific license plates and more strict civil insurance policies, which tend to be more expensive than the ones for regular cars. Moreover, taxi cars have to pass a vehicle inspection once a year, and twice a year if a car is older than five years.

> SEEING THE NEW P2P LENDING PLATFORMS AS THE SAME TYPE OF SERVICE PROVIDERS, THE BANK OF LITHUANIA TOOK A RIGID STANCE ACCUSING THE FIRST PLATFORMS OF ILLEGALLY PROVIDING INVESTMENT AND PAYMENT SERVICES

The drivers themselves must have a municipality-issued license and a certificate which confirms that the driver has passed a government-organized examination for taxi drivers. Taxi drivers must also carry out a meticulous journal logging system which has to be synchronized to a registered taximeter. Needless to say, issuing of these taximeters is charged extra by local taxing authorities.

Despite the fact that some of the taxi companies have been under investigation for tax fraud, compared to other countries, Lithuanian regulations for taxi drivers are less restrictive. For example there is no limitation of the number of taxi cars or drivers, and the license fees are not as exorbitant as in Paris or New York. Although the cars are required to have a certain visual marking, the requirements are not as specific as, for example, the ones in London.

UBER IN LITHUANIA

Uber flourished in part due to being able to suggest an alternative to the aforementioned excessive regulations throughout the world. Yet, this has not been the case in Lithuania. Uber reached Vilnius on January 2014 by establishing its branch office in the city. In October 2015, the Vilnius Municipality and Uber signed a joint agreement to commence operations. By the end of 2015, the company was already providing services for drivers and riders alike. According to the Logistics and Operations Manager for Uber Lithuania Vytautas Černiauskas, Vilnius has been the fastest city in which Uber has established its services so far.

On the one hand, such a hasty introduction of the service had its benefits. It provides opportunities for people to earn money by driving, and riders have more options of services. On the other hand, the business model encountered uncertainties with the legal system. At first, this discouraged


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some drivers from taking up new business. However, the support from the Mayor of Vilnius and the Prime Minister resulted in clearer taxation rules, which encouraged more people to join Uber both as drivers and riders.

OTHER RIDE-SHARING EXAMPLES

The smooth and swift establishment of Uber produced negative feedback as well. Taxi drivers, similarly to their counterparts in other countries, started protesting a new ride-sharing competitor. But contrary to their colleagues abroad, Lithuanian taxi drivers did not end up rioting. Mobile taxi hailing apps saw the possibility and copied Uber's business model. So now, most of the taxi apps also act as ride sharing platforms with drivers working in a similar manner to Uber. This happened due to three main factors:

1. The Lithuanian government was welcoming towards new innovative business models, especially Uber.

2. Regulations applicable to a traditional taxi business were not particularly excessive. This means that taxi drivers did not have to invest significant amounts of money in their taxi business. This led to a more stable shift in[1] the business model. The ICT infrastructure of taxi hailing apps was already developed enough. Only a slight adjustment in app design and business organization was necessary to adapt to a new model.

FUTURE REGULATORY MODEL FOR RIDE-SHARING

The fast development of ride-sharing business models has led to a implementation of a legal vacuum in this area. The Lithuanian Parliament is discussing a new amendment to the Lithuanian Road Transport Code which would add more legal certainty in the field of ride-sharing. A new regulation that will most likely be adopted will allow drivers from Uber and other ride-sharing companies to continue to provide services for customers without any additional licensing requirements. This means that the ride-sharing services should flourish in the future due to a favorable regulation. On the other hand traditional taxi services might find it harder to compete. If regular taxi companies will not reinvent their businesses they will most likely lose a part of their market share to ride-sharing businesses.

P2P LENDING IN LITHUANIA

The first digital P2P lending platform in Lithuania started its operations on August 2014. By the time P2P lending companies started their businesses in Lithuania, consumer credit or "payday" loan companies had already been viewed as problematic by the main Lithuanian banking sector regulatory body. The Bank of Lithuania felt that some pay-day borrowers lacked responsibility. Seeing the new P2P lending platforms as the same type of service providers, the Bank of Lithuania took a rigid stance accusing the first platforms of illegally providing investment and payment services. The allegations have been dropped, but all the P2P lending platforms were made to register as consumer credit companies.

The ongoing negative attitude towards payday loan companies and a failure to separate P2P lending platforms from consumer credit services have resulted in a harsher Lithuanian Consumer Credit Act regulating P2P lending platforms as well as payday loan companies. In early 2016, a new law created a new set of

[1] It has to be noted that the Lithuanian Bank does not separate P2P lending platform data from payday loans, therefore the absolute numbers given in the statistics do not represent P2P lending platforms directly. Nevertheless, the relative numbers partially describe the P2P lending situation because it has suffered similar losses.

market entry barriers and service limitations that have affected the market significantly.

Among a set of bureaucratic procedures, P2P lending platforms are now required to have business sustainability plans and customer creditworthiness evaluation methodologies. Even though it may sound benign, there are no clear guidelines which define what business plans will be deemed sustainable or which creditworthiness evaluation methodologies will be deemed acceptable. Apart from that, significant procedural restrictions for consumer credits have been implemented as well. Both consumer credit companies and P2P lending companies have to check the creditworthiness of a customer and issue a credit only if a customer has a debt to income ratio lower than 40%. What is more, new debtors have to obtain consent of their spouses to borrow resources. Specific P2P lender restrictions have also come into power. Lenders can only give EUR 500 worth of credit to one borrower in a period of 12 months. Furthermore, a total amount of credit received by one creditor cannot exceed EUR 5,000 in a period of 12 months.

EFFECTS OF P2P LENDING AND CONSUMER CREDIT REGULATIONS

New regulations have impacted the consumer credit and P2P lending markets significantly. According to the Bank of Lithuania, in one quarter after the new legislation came into power, the number of loans that are overdue by 60 days have decreased by 12%. In Q1 of 2016, a total amount of 441 thousand consumer loans was issued. That is 21% less than in the end of 2015. All in all, both the number of newly issued loans and the total value of credits have dropped[2] due to a number of new restrictions and regulations. Despite the fact that the government is trying to curb both the consumer credit and P2P lending sector, new platforms are emerging. Since the establishing of the first lending platform in 2014, the total number of platforms has reached four, but the liveliness of the market is still far from what is happening in the UK. The vast majority of the P2P lending activity is concentrated there. It accounts for over 84% of the entire European market, while Lithuania accounts for less than 0.1%.

FUTURE REGULATORY MODEL FOR P2P LENDING

Neither the Lithuanian government, nor the society distinguishes between the P2P lending sector and the payday loan businesses. This is the main reason why the P2P lending sector will most likely remain regulated as strictly as the consumer credit market. Nevertheless, P2P lending companies fight actively against the current regulation. This has resulted in a proposal to abolish limits on the amount of money invested by lenders and the amount of money borrowed by debtors.

Despite the fact that the P2P lending platforms are being frowned upon by the government, a new legislation is being proposed by the government which enables crowdfunding activities in Lithuania. It will allow both natural and legal persons to acquire funds for funding of their future businesses, as well as professional, scientific or research projects. New legislation will most likely have some traces of paternalist regulations that the current Consumer Credit Act has. For example, it is most likely that the creditors will be able to invest only up to EUR 1,000 using one crowdfunding platform. A new legislation is expected to be adopted in late 2016.

REGULATION OF HOTELS IN LITHUANIA

Lithuanian hotels are subject to an extensive set of different rules. They consist of various requirements for the construction

[2] http://www.lb.lt/sugrieztinus_vartojimo_kreditu_teikimo_salygas_ju_suteikta_gerokai_maziau

> ONLY A COUPLE OF YEARS AFTER THE LAUNCH OF HOME-SHARING PLATFORMS IN LITHUANIA, INTENTIONS TO REGULATE IT HAVE EMERGED

including: water and electricity supply, sanitation, telecommunication, accessibility for the disabled, lighting, ventilation and fire safety standards. Apart from that, there are specific requirements regarding being soundproof and the temperature level in hotels (at least +18°C). Finally, hotels must also pass sanitation inspection. Both the intensity and extensity of the sanitation standards depend on whether the hotel has a restaurant in it.

Aside from all the aforementioned requirements, some of the hotels are subject to a mandatory "pillow-tax". The Lithuanian pillow-tax system is set by municipalities; therefore the taxation varies by the regions. Usually, a certain tariff is set for accommodation. This means that a customer of a hotel usually has to pay an extra amount of money per night.

HOME SHARING IN LITHUANIA

Home sharing in Lithuania is not a new concept. People living in resort towns rented out their flats, houses or any real estate as a short term accommodation to the vacationers long before the IT platforms were developed. Only after around twenty five years the concept of home sharing was elevated into a digital level. It is difficult to estimate when the online home-sharing platforms were first used in Lithuania. One of the most popular platforms, Airbnb.com, does not have its branch office in Lithuania. Another similar platform, booking.com, was established in Lithuania in 2014.

It is difficult to estimate how many people use these platforms for their businesses as they are not eligible to register as the accommodation providers. Booking.com has over 2,000 listings in Lithuania whereas Airbnb is said to have over 1,000 listings.

FUTURE REGULATORY MODEL FOR ACCOMMODATION

Only a couple of years after the launch of home-sharing platforms in Lithuania, intentions to regulate it have emerged. The biggest pro-regulation stakeholder appeared to be the Lithuanian Hotel and Restaurant Association which represents already established market players. The association has approached the Lithuanian government with the proposal to regulate short-term home-renting activities including home-sharing platforms. Regulations would require homeowners to provide certificates from governmental institutions confirming that the accommodation meets certain government-set requirements dealing with building safety and hygiene, which the established market players are already subject to. Home owners would be required to meet special fire safety standards, which would be higher than the regular ones applied to typical housing. Above all, new regulations would require all short-term house-renting businesses to register separately with the State Tourism Department. The Lithuanian Hotel and Restaurant Association claims that

the main purpose of such regulation is to calculate the tourism streams in Lithuania more thoroughly. It is also said that the additional regulations will not add to the cost of the homeowners who want to rent out their real estate. This however, may not be entirely true. What these suggestions definitely do add are additional bureaucratic procedures that do not exist at the moment.

Firstly, homeowners would have to get all the necessary certificates from different institutions in order to submit them to the tax administration institution. Secondly, all of the businesses would have to register with the State Tourism Department. These procedures would add up to a cost of small businesses.

Other significant changes would come with the special hygiene, fire and building safety requirements. In order to meet the raised requirements, owners would have to invest more in their real estate. What is more, for example, a hygiene certificate may cost between EUR 44 and EUR 117, depending on the size of the accommodation. And above all, registering with the State Tourism Department would mean that the new businesses would have to pay the aforementioned pillow tax set by the respective municipality. All of these will undoubtedly increase the costs and lower flexibility in organizing home-renting activities and in turn, would result in a reduced competitive advantage now possessed by the new accommodation-sharing businesses.

LITHUANIAN GOVERNMENT: THE GOOD, THE BAD AND THE INDIFFERENT

The presented three areas of the sharing economy and their relationship with the Lithuanian government perfectly illustrate how businesses which share many similarities can be treated completely differently. Firstly, there is Uber and other ride-sharing businesses that have been warmly welcomed in Lithuania. Secondly, there are entities which experience completely different sentiments – namely, P2P lending platforms, which have been a target of heavy governmental regulations. Thirdly, there is the accommodation sector where the main initiative to regulate home-sharing businesses comes from the competitors – hotels. After analyzing these three cases, the following issues influencing the regulation to the greatest extent can be identified:

1. **Prior attitude and prejudice towards similar traditional services**

All of the three cases show that the prejudice of the government and the society is extremely significant when it comes to the forming of the regulatory environment. The ride-sharing and accommodation cases prove that when the government does not have a negative attitude towards traditional services (e.g. taxis or hotels), it most likely will not be inclined to regulate the sharing economy business model rigidly. P2P lending example shows a different side of the coin – the government has considered traditional services (i.e. payday loans) harmful. Therefore, the emergence of a new sharing economy business model has not been considered as a new type of business or a way for people to invest money but rather as an additional possible threat to financial security. This has led to an extensive regulation that prevents a sustainable development in the early stages of the P2P lending development.

2. **Separation of a new business model and similar services**

The ride-sharing case has proven that a distinction between the sharing economy and its traditional competing business is a key to success to not putting it under the same heavy regulatory burden. If a regulatory body distinguishes different business models, it will most likely treat it favorably. However, P2P lending has proven the other side of the story – the Lithuanian governing bodies have not separated them clearly from the consumer credit businesses what led to the same type of rigid regulations.

3. **Stakeholder and competitor activity**

An important issue that has a strong influence on how the future sharing economy regulatory model will develop is the activity of stakeholders and competitors in particular. They influence both the regulation and the markets. The accommodation case shows that the competitors may be on the forefront of regulating sharing economy businesses more harshly. Taxi drivers have tried to do the same, but instead after evaluating the costs of transferring to a ride-sharing business, some of them embraced the change themselves. Taxi companies started providing ride-sharing hailing services on their applications and the taxi drivers started using these platforms.

CONCLUSIONS

The undeniable growth of sharing-economy business models has shown that the consumers are using new services willingly. Therefore the growth will probably continue. The interest shown by consumers is a clear sign to the legislators that the new services are satisfactory and the regulations that have shackled traditional businesses and increased their price have become obsolete. The sharing-economy is a chance for Europe and the entire world to review these legislations and abandon them, making it easier for traditional businesses to compete and for the consumers to get an even wider variety of services. The Lithuanian cases of sharing-economy businesses show different paths which the regulators can take. The cases show that new sharing-economy businesses must not be idle when setting up their businesses. They have to actively work with the government and stakeholders showing them how new services can benefit markets and consumers. ●

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Emerging Sectors of the Sharing Economy in the Czech Republic

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Those who follow media news coverage on the sharing economy in the Czech Republic may get the impression that this new *trend* is limited mostly to two sectors: transportation and accommodation, where large international start-ups dominate. It is true that known brands, established international clientele and sufficient finances for the development of operation in the country are all concentrated within these two sectors. However, the phenomenon of a sharing (or collaborative) economy cannot be reduced only to these two sectors.

> ONE OF THE KEY ADVANTAGES OF A SHARING ECONOMY IS THAT IT BRINGS SUCH POSITIVE FEATURES OF THE INTERNET AS THE INSTANT MATCHING OF SUPPLY AND DEMAND OR THE AVAILABILITY OF INFORMATION ON EVERY PARTICIPANT THROUGH THE PROCESS OF INDIVIDUAL REVIEWS AND REFERENCES INTO REAL EVERYDAY LIFE

One of the key advantages of a sharing economy is that it brings such positive features of the Internet as the instant matching of supply and demand or the availability of information on every participant through the process of individual reviews and references into real everyday life. This feature has a great potential to reshape various sectors where, a few years ago, only services of traditional providers were available.

There are three sectors that may, at present, be less under the spotlight but where some aspects of the sharing economy have already taken roots in the Czech Republic:

- debt crowdfunding;
- carsharing platforms;
- real estate marketplaces.

In order to map the current share of the sharing economy and how it influences the operation of traditional service providers in the particular sectors, available quantitative data needs to be analyzed. The data presented in this article is based on a study prepared by the Association for international affairs (AMO) for the Ministry of Industry and Trade of the Czech Republic in the spring of 2016[1].

[1] Kruliš K. and Rezková A. *Analýza vybraných sektorů sdílené ekonomiky v České republice.* May 11, 2016. Available [online]: http://www.amo.cz/wp-content/uploads/2016/05/amocz_RP_2_2016_web.pdf

> FROM THE PERSPECTIVE OF A SHARING ECONOMY, DEBT CROWDFUNDING PLATFORMS MEDIATE P2P LOANS BETWEEN NATURAL PERSONS AND BRING NEW CONDITIONS FOR BOTH CREDITORS AND DEBTORS

DEBT CROWDFUNDING IN THE CZECH REPUBLIC

The term "crowdfunding", taken with a grain of salt, could be considered as a sharing economy label within the financial sector. It indicates that a larger number of people come together via an online platform for a specific purpose – donating for a charity project, participating in an increase of registered capital in a trading company, or (in the case of debt crowdfunding) participating in the provision of a loan. Individual investors have possibilities to invest in projects which would otherwise be inaccessible to most of them due to the lack of information or limited means to invest. On the other hand, those who seek funds can gain new sources of possible financing through crowdfunding.

From the perspective of a sharing economy, debt crowdfunding platforms mediate P2P loans between natural persons and bring new conditions for both creditors and debtors. Creditors can invest their free financial resources for higher interest than with banks (average interest in crowdfunding platforms is around 10% p.a.). However, they take on a higher risk and their loans are not covered by insurance of deposits as in the case of money saved on bank accounts. The debtor is not a bank or the platform itself, but specific natural persons.

This risk can be managed especially by a broad diversification of the portfolio, in which several creditors (possibly even several hundred creditors) come together and provide the resources for one loan. An advantage, on the part of the debtors, may be lower interest than in the case of other financial products available to them. It may also represent an alternative source of financing in the case of projects which banking providers are not able to cover due to the existing regulations.

The interest which the creditor acquires on loans via debt crowdfunding platforms is not subject to withdrawal tax as in the case of interest from banks. The creditor must declare this in their annual income tax declaration. In comparison with the financial resources offered by a bank (in which the deduction from income is made automatically and the tax is taken by the bank on behalf of the taxpayer), creditors on crowdfunding platforms have an increased tax administrative burden and their overall tax base is thus increased. This could be understood in a way that creditors, within the framework of crowdfunding platforms are *de facto* acting as


Coca-Cola

> WITHIN THEIR FIRST YEAR, ZONKY.CZ AND BENEFI.CZ MEDIATED LOANS WITH A SUM VALUE OF A LITTLE OVER CZK 40 MILLION

providers of loans, bear the risk of non-payment of loans, and decide on the selection of a suitable investment themselves. They thus substitute the activity of a traditional provider of credit themselves and are taxed accordingly.

The advent of debt crowdfunding was postponed in the Czech Republic until 2015[2], when two crowdfunding platforms (Zonky.cz and Benefi.cz) started their operation. Within their first year, Zonky.cz and Benefi.cz mediated loans with a sum value of a little over CZK 40 million. Each of the platforms mediated approximately half of this amount. The Zonky.cz platform later started a very visible marketing campaign and it expects that by the end of 2016 it will have loaned CZK 450 million.

If these optimistic predictions by one of the platforms is taken into consideration, the annual potential of P2P loans between natural persons in the Czech Republic (for all platforms) can be estimated around CZK 500 million[3]. The average length of loans on Zonky.cz is about four years. It is therefore possible to expect that in the years between 2016 and 2019, the total aggregate volume of loaned resources via these platforms will increase rapidly and could reach the amount of CZK 2 billion by 2020. Even if this optimistic scenario comes true, the volume of resources in P2P loans would constitute only half of one thousandth of the volume deposited in banks by Czech residents (CZK 3,680 billion in 2015, according to the Czech National Bank).

From the perspective of the demand (debtor) side, it is necessary to point out that about 74% of the total volume of loans provided to households in the Czech Republic are loans for housing.[4]. The predominant part of these loans functions on the basis of mortgage lending provided by the banking sector in the Czech Republic. As the average interest rate on mortgages is currently very low in the country, most of the debt is far beyond the potential which can be attained within the framework of P2P lending. With their current business plan, debt crowdfunding platforms have the potential to enter the competitive battle (by means of new financing or refinancing) in particular in the segment of consumer

[2] The first instances of use of internet and social media to raise funds for a specific purpose dates back to the end of the 1990s in the US. The first regular debt crowdfunding platforms appeared in the US and the UK in the middle of the first decade of the new millennium. The concept of crowdfunding was known in the Czech Republic for several years only in its form of the Donation Based form (charity projects) or Reward Based form (items or services in return for provided funding). Debt Crowdfunding followed in 2015 and the first Czech Equity Crowdfunding (Fundlift.cz) was launched only very recently in the spring of 2016.

[3] Kruliš K. and Rezková A. *Analýza vybraných sektorů sdílené ekonomiky v České republice.* May 11, 2016, Available [online]: http://www.amo.cz/wp-content/uploads/2016/05/amocz_RP_2_2016_web.pdf

[4] The Czech National Bank. *Bankovní statistika.* June 2016, Available [online]: https://www.cnb.cz/cs/statistika/menova_bankovni_stat/bankovni_statistika/bank_stat_komentar.html

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ZONKY.CZ, THE LEADING CROWDFUNDING PORTAL IS ITSELF FULLY CONTROLLED BY ONE OF THE TRADITIONAL NON-BANKING PLAYERS IN THE CONSUMER LENDING SECTOR (HOME CREDIT LAB N.V.) AND THE SUCCESS OF THE PROJECT MAY LURE OTHER PLAYERS IN THIS AREA TO START THEIR OWN CROWDFUNDING PLATFORMS AS AN ALTERNATIVE TO THEIR TRADITIONAL SERVICES

loans in the non-banking sector, which amounted to CZK 56 billion at the end of 2015[5].

In case the total aggregate volume of the loaned resources via crowdfunding platforms really reaches CZK 2 billion as suggested by the optimistic scenario mentioned above, the crowdfunding sector will still only achieve a market share of 2% of the narrow segment of consumer loans in the non-banking sector and an even much lower share in the case a broader segment of the financial sector is considered. This means that debt crowdfunding will remain only an additional supplement to the market covered by the traditional providers during these years.

It is also possible to expect that a sharper increase of the segment of P2P loans (beyond the framework of the already optimistic scenario mentioned above) would generate a corresponding response also from the traditional banking and non-banking players in the given segment, and the dynamic growth of crowdfunding loans would progressively weaken.

Furthermore, in the case of a sharp increase in the popularity of crowdfunding loans in the Czech Republic, other players may respond not only with a modification of their established services, but also by launching their own crowdfunding platforms. Zonky.cz, the leading crowdfunding portal is itself fully controlled by one of the traditional non-banking players in the consumer lending sector (Home Credit Lab N.V.) and the success of the project may lure other players in this area to start their own crowdfunding platforms as an

[5] Česká leasingová a finanční asociace. *Statistiky ČLFA.* 2015, Available [online]: http://www.clfa.cz/index.php?textID=64

alternative to their traditional services. In such a case, the success of one player could start a domino effect which could reshape the segment of consumer loans in the non-banking sector.

CARSHARING: THE MOST GENUINE SEGMENT OF THE SHARING ECONOMY OR JUST A NEW FORM OF CAR RENTAL OUTLETS?

The Czech Carsharing Association was established in the spring of 2015[6]. It brings together six active providers of services that could fit under a broad label of 'carsharing' (sharing of passenger vehicles). Services offered by its members, however, fundamentally differ between one another to a various extent.

> IT IS GENERALLY CONSIDERED THAT ONE SHARED CAR EFFECTIVELY LOCATED IN THE STREETS CAN SUBSTITUTE UP TO TEN CARS IN THE OWNERSHIP OF INDIVIDUAL NATURAL PERSONS

The nature of the services of the majority of association members in essence resembles an innovative and technologically advanced way of how to provide cars for rental. What makes their services different from traditional car rental outlets is that their cars are parked in the streets and can be unlocked by a special card. It is thus not necessary to collect a rented car at one of the car rental company's locations, but directly in your neighborhood. Other members of the association offer a rather simple internet marketplace in which individual car owners can offer their vehicles to other persons for rent.

In April 2016, the number of all vehicles offered by members of the association reached 169[7]. It is generally considered that one shared car effectively located in the streets can substitute up to ten cars in the ownership of individual natural

[6] Prague and Brno, the two biggest cities in the Czech Republic, are primarily covered by members of the Czech Carsharing Association, with only limited cars available in other towns.

[7] Based on the current data available on the websites of the members of the Czech Carsharing Association.

persons[8]. This would mean that the cars currently in a carsharing mode represent a substitution of up to 1690 private vehicles. As of September 30, 2015, a total of 5,110,452 passenger vehicles were registered in the Czech Republic. The present capacity of carsharing thus represents only one third of a thousandth of the entire number of registered cars in the Czech Republic.

> THE BIGGEST BREAKTHROUGH FOR CARSHARING MAY COME WITH THE ASCENT OF SELF-DRIVING CARS

The development of carsharing will be influenced in the future mostly by economic and user factors. The economic factors include a calculation of the costs of using a shared vehicle in comparison with costs connected to car ownership, including: car depreciation, insurance, obligatory checks of a technical condition, changing of winter/summer tires and other costs related to car maintenance. The user factors are primarily car availability at the time when it is needed, its proximity to your home and other conditions under which you can rent it.

The situation in which only one shared vehicle is available in several areas of Prague may have a deterrent effect on potential users of carsharing services. The fact that some people decide to rely entirely on sharing instead of car ownership will depend to a considerable extent on a sufficient capacity of shared vehicles in their immediate vicinity.

Until now, it is possible to assume that the phenomenon of carsharing will be rather of a supplementary nature in relation to traditional car ownership and has probably the biggest potential to influence the acquisition of a second car by a household or be an alternative for mostly occasional drivers. The biggest breakthrough for carsharing may come with the ascent of self-driving cars. Having your shared car coming to a given address at the time of your preference could be the swaying feature that could make carsharing the dominant form of car ownership in the future.

As carsharing platforms develop and expand, they move more and more away from the concept of several people coming together to buy one car that would be shared by them. Some of the services in the Czech Republic started in this form, but with the acquisition of new cars, several platforms started to offer basic tariffs without flat fees and opened themselves to users who did not invest in the purchase of any car. In this case, the platform resembles services offered by traditional car rental outlets. The main remaining difference resides in the option of collecting the car at a predefined location (not only at selected stations) and opening it by

[8] E.g. Autonapůl. Available [online]: http://www.autonapul.org/#page-ohleduplne

means of a card allocated to each client in advance (and thus offering availability regardless of the opening hours of the car rent outlet).

P2P REAL ESTATE MARKETPLACES: A THREAT AND A USEFUL TOOL FOR REAL ESTATE AGENTS

The P2P real estate marketplaces enable an immediate meeting of supply and demand in the long-term residence sector through the mediation of property sale, rentals or shared housing[9]. They brought greater price transparency and a reduction of costs onto the real estate market, for both the supply and the demand side, and represent an alternative to real estate agents' services.

Traditional mediation services provided by real estate agents are least influenced by P2P marketplaces within the category of mediation of the sale of real estate, as these transactions involve bigger sums of money and require a higher level of professional expertise. As regards the mediation of shared housing, P2P platforms dominate, even though it is possible to estimate that a substantial role is also played here by regular social networks.

The area of rentals represents a middle ground which allows for the greatest coexistence of P2P real estate marketplaces and traditional services of real estate agencies. P2P platforms are used most widely in the flat rentals segment in Prague, but even there the traditional real estate agents found a way to reshape their service in order to face the new situation.

Namely, real estate agents focused their services on the side of the tenants with specific rental requirements. These tenants are more willing to pay a commission for professional assistance by an agent. The existence of P2P platforms, however, has led to the disappearance of the practice in which real estate agents demanded a commission from both parties to the transaction. This previous practice that increased the transaction costs and had a negative impact on overall market flexibility has been significantly reduced.

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> THE LARGEST SUPPLY AND DEMAND FOR SHARED HOUSING ON P2P MARKETPLACES IS BY FAR IN PRAGUE

The P2P real estate marketplaces for shared housing has the strongest features of the sharing economy. They allow advertising of available living spaces by the means of the Internet. The largest supply and demand for shared housing on P2P marketplaces is by far in Prague. From this perspective, the capital city represents a specific market within the Czech Republic. Foreign nationals represent approximately one third of transactions on P2P marketplaces in Prague[10]. The concept of

[9] In contrast to platforms offering accommodation such as Airbnb or Booking.com, the real estate marketplaces focus on housing transactions (sales, rentals or cohabitation).

[10] Kruliš K. and Rezková A. *Analýza vybraných sektorů sdílené ekonomiky v České republice.* May 11, 2016, Available [online]: http://www.amo.cz/wp-content/uploads/2016/05/amocz_RP_2_2016_web.pdf


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P2P mediation of shared housing also exists in Brno and to a certain extent in other larger university cities.

However, in its initial phase, shared housing often begins with the joint rental of a flat, either on the P2P marketplace or with the use of the services of real estate agents. The mediation of shared housing via P2P especially represents a secondary marketplace for cases in which existing users of a flat are seeking a new flatmate, either on the basis of their own decision concerning space in a flat available for sharing or due to the departure of one of their existing flatmates.

The development of a secondary marketplace for those sharing housing also has some additional effects such as a contribution to greater stability in the relations between cohabiting tenants and landlords. The departure of one of the tenants does not have to lead to the termination of the entire lease contract, because the functioning P2P platform can be used to substitute the leaving flatmate with a newly found person. In places where this secondary market functions (especially in Prague and partially also in Czech university cities), this contributes to a greater willingness on the part of landlords to conclude a contract of lease with cohabiting persons who do not constitute a family.

Platforms offering P2P mediation of cohabitation are mostly free of charge for private advertisers. They are paid only in the case of advertisements from real estate agents. Paid servers (e.g. Spolubydleni.cz) are not thriving at present due to abundance of the free of charge competition (e.g. eSpolubydleni.cz or myFlatshare.cz).

CONCLUSIONS

A sharing economy is not limited only to the two most visible sectors of transportation and temporary accommodation. It has the potential to reach almost all spheres of our life and provide alternatives in most traditional retail sectors. This process is also ongoing in the Czech Republic. The analysis of the three specific sharing economy sectors of: debt crowdfunding, carsharing and real estate marketplaces shows that the phenomenon has already taken roots in the Czech Republic with a varying degree of influence on traditional services.

The debt crowdfunding platforms are new on the Czech market. The two biggest platforms started their operation in 2015. Despite a limited space in the financial sector which is given by the currently low-average interest rates on mortgages in the banking sector, debt crowdfunding has a potential for rapid growth in its initial years. This is due to a zero base from which the sector is growing. The crowdfunding platforms thus have the capacity to take part of the consumer loans market of the non-banking institutions.

Even if the optimistic scenarios expected by the platforms themselves are taken into account, the entire debt crowdfunding sector can still constitute only a small share (around 2%) of the non-banking consumer loans market. It could be further expected that growth above this scenario could trigger a response by traditional non-banking providers, which may include the innovation of their own services or even the establishment of their own crowdfunding platforms in order to keep up with such a trend.

The phenomenon of carsharing in its earliest form of development could be considered as a genuine example of sharing economy where users are, at the same time, co-owners of the used items. Several people, usually those living in one neighborhood, invest together in purchasing a car that would be used by all of them. As the carsharing platforms grow, the factor of common investing is present less and less and the purchases are financed by the platform itself from money earned on fees for car rental. Several Czech carsharing platforms thus offer rental of their cars also without any flat payment and all you pay is directly related to the duration of your rental and number of kilometers you travel.

In this manner, the carsharing platforms resemble traditional car rental outlets and the most visible technological change is that you pick up your car for rent directly in the street. The present capacity of carsharing in the Czech Republic is still very limited and represents only one third of a thousandth of the entire number of registered cars in the country. An expected future advent of self-driven cars could, however, bring a big change and carsharing could become the dominant form of car ownership.

The traditional services of real estate agencies have been partly influenced by the popularity of real estate marketplaces. The most visible influence is in the segment mediation of shared housing, where P2P platforms and also regular social networks almost erased the space for the operation of traditional real estate agents. To a lesser extent, this influence could be seen in the segment of rentals of flats, where the traditional services coexist with the P2P marketplaces after real estate agents reshaped their services and focused on tenants with specific requirements.

The sharing economy in the Czech Republic is, in a predominant way, still represented by several strong brands of international platforms such as Airbnb or Uber. These brands dominate in the two most visible sharing economy sectors of accommodation and transportation and due to their large foreign clientele and availability of capital it is difficult to imagine that they would be challenged by a new Czech start-up in the foreseeable future.

Nevertheless, the mapping of the other sectors of sharing economy in this article reveals that there are many examples of successful sharing economy platforms that have started in the Czech Republic from scratch. Their initial growth rate is very fast and they have the potential to lure more and more users. Some of them may remain independent, although examples of Czech start-ups acquired by big international brands, such as in case of the long distance ride-sharing platform Jízdomat.cz that was acquired by Blablacar at the beginning of 2016, can already be seen. We can only wait and see how will the market evolve in the near future. ●

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The Sharing Economy: Economic Frame or Forerunner of Another Political Cleavage?

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RÉKA
CSABA

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ROLAND
REINER

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INTEGRITY
LAB

Uber closed down its operation in Hungary on July 24, 2016 due to a new law which would impose serious penalties on its drivers, (for example resulting in taking away their licenses) making its operation impossible. This was the last act of a several months long debate in which taxi drivers (by resorting to protests and blocking the streets) forced the Hungarian government to ban Uber. With this decision Hungary became one of the few European countries where the sharing economy – as one of the most important economic developments – has recently become a very political issue. The case of Uber vs. taxi drivers was undoubtedly influenced by party politics in Hungary: the governing right-wing Fidesz-KDNP positioned themselves against Uber, while the left-liberal opposition – regardless of their political ideology – took Uber's side. Hungarian intellectuals were more divided: the usually anti-government but new-leftist opinion leaders seriously criticized Uber for their tax and employment policies, by the same token indirectly becoming the harsh critics of the sharing economy in general.

This clearly shows the novelty of a new economic model – which is only now being shaped – on multiple levels: it can bring innovation in terms of economic, legislative and political solutions, and can open new front lines between right- and left-wing parties, or even among the left and liberals. This can have even more serious consequences in a country like Hungary, where the opposition is forced to form some kind of unity or cooperation against the government (in this case, it is mainly the new election system created by the Fidesz government). This left-liberal camp is already divided by certain issues and the sharing economy may simply become yet another reason for turning the Hungarians against each other.

SHARING AND COLLABORATIVE ECONOMY

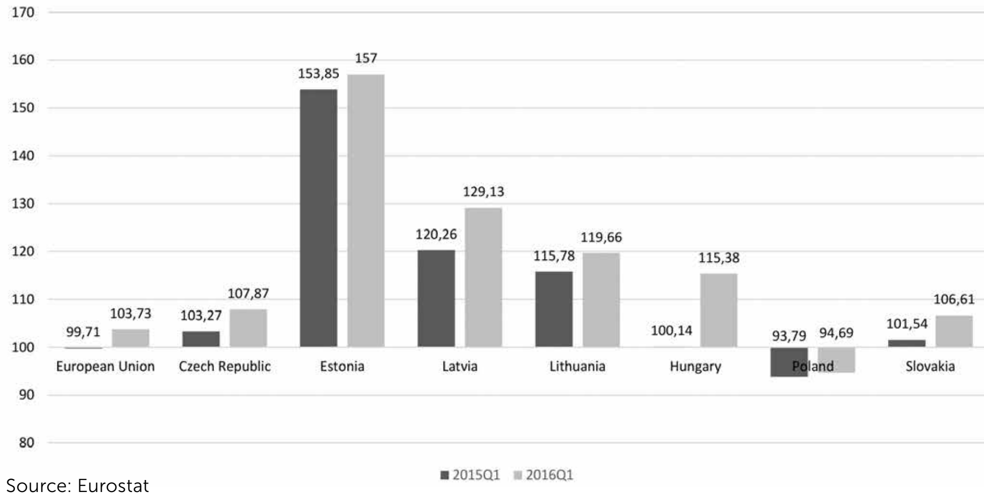
The term itself, is another thing currently under construction. The respective EU bodies recommend the use of "collaborative economy" instead of the original, more popular term 'sharing economy'[1]. The Commission's recommendation is rather supportive towards the collaborative economy in general due to its innovativeness and potential to create jobs. A part of these suggestions is aimed at policy makers: "Absolute bans and quantitative restrictions of an activity normally constitute a measure of last resort" – but admits that the development of a collaborative economy raises some important questions regarding the legislation both nationally and

WHAT IS THE COLLABORATIVE ECONOMY?

The term 'collaborative economy' refers to business models where activities are facilitated by collaborative platforms that create an open marketplace for the temporary usage of goods or services often provided by private individuals. The collaborative economy involves three categories of actors: (i) service providers who share assets, resources, time and/or skills — these can be private individuals offering services on an occasional basis ('peers') or service providers acting in their professional capacity ('professional services providers'); (ii) users of these; and (iii) intermediaries that connect — via an online platform — providers with users and that facilitate transactions between them ('collaborative platforms'). In general, collaborative economy transactions do not involve a change of ownership and can be carried out for profit or not-for-profit.

[1] http://www.eesc.europa.eu/resources/docs/com2016-356-final.pdf

Figure 1. House Price Index (2010 = 100). Quarterly data



Source: Eurostat

on a European level – and in the latter case, it can only mean some further recommendations.

Nevertheless, we should bear in mind that the actual name or an official term do not really matter: no matter which label is used, people will understand it anyway. And for them the operation and the impacts are what really counts.

Basically, according to the EU definition, a 'sharing' and 'collaborative economy' shall be used as synonyms and thus it means they both:

1. connect service providers and costumers;

2. through an online platform;

3. regardless of whether doing this individually or as a member, or an employee of an organization.

Opportunities and innovations coming from a sharing economy can be realized if they are regulated appropriately and efficiently, which requires a predictable social and political environment. Examples of the two most popular services – Airbnb (offering rooms and flats for short term rent) and Uber (for car transportation) – illustrate well what impact they can have on society – revealing and generating both positive attitudes and serious concerns.

WINNERS AND LOSERS OF THE SHARING ECONOMY

Supporters of the sharing economy like to present the concept in a way that it benefits many actors while at the same time it does not hurt anyone, a few agents at most. However, it is not that simple. Even if a sharing economy brings a better situation for the economy in general in the short term, there might be groups that will be affected by the negative consequences or suffer in the long term.

The rise of property prices in Budapest (not only, but mainly) due to the introduction of Airbnb is a good example for the first case[2]: after the results of a higher number of student applications in late July 2016, difficulties in finding accommodation and being

[2] http://hvg.hu/ingatlan/20150702_Megvesztek_a_magyarok_mindenki_az_Airbnb

able to pay the rent of a flat or a room for students were among the leading news. The latest Eurostat results from Q1 2016 show a 15.2% increase in housing costs, which is the highest rate among the countries included in the research. As Figure 2 shows, although Hungary's performance is not the worst in medium-term – the rise of housing costs is the highest in the Baltic countries (2010=100), – Hungary's rise was the largest in the past two years. [See Figure 1]

As for the employees working in the Uber model: although it is a good source of extra income, or a monthly living can be made working full time, it is still questionable whether the paid taxes are a sufficient source of future pensions in 30-40 years.

The Hungarian Uber vs. taxi drivers debate revealed the attitudes of society regarding the service itself and the members of the taxi driver community trying to protect their interests – or privileges. Both sides conducted their own research and the results of the questions (clearly showing the different approaches) can be analyzed together.

Based on these the vast majority, 72% of the population of Budapest in general supported Uber[3], but only 37% actually used it (2% only used Uber, and 35% used both Uber and taxi). 80% consider new technologies good opportunities for the economy, and a good source of taxes; however more than half of them have heard about Uber not being registered, therefore not paying taxes in Hungary – and 79% of respondents do not think it's fair[4].

The results teach some important lessons: likeability and support for Uber was significantly higher than the ratio of actual users, and the government's communication campaign of the taxi drivers. On the other hand, the Hungarian government's communication about Uber not paying taxes and not operating under the same circumstances and expectations as taxi drivers was very successful. ' Finally, the rate of those who could not agree with either of the groups (45%) while strongly opposing the protest of the taxi drivers shows the novelty of the situation and how divisive the issue is.

In the meantime, we cannot say the case was about economic, taxation or regulatory issues, but rather about the way of living: Uber supporters (e.g. posing with Uber drivers on selfies), mainly young, middle-class people, who were – based on their active online and social media appearances - simply against older taxi drivers trying to avoid competition. The opposition parties also tried to frame the controversy as an issue of modernity, in which the governing Fidesz party does not understand digital technology and is afraid of young generations using it.

The case was quite similar with the internet tax protests in 2015 with hundreds of thousands of protesters, which occurred in Budapest when the government tried to impose a monthly fee for internet subscriptions. The protests succeeded in changing the government's plan and prevented the introduction of the tax. Although there was no political follow-up for this movement, it created the basic frame for the communication of the opposition which appeared in the case of Uber as well, because here, the freedom provided by the Internet is a key factor.

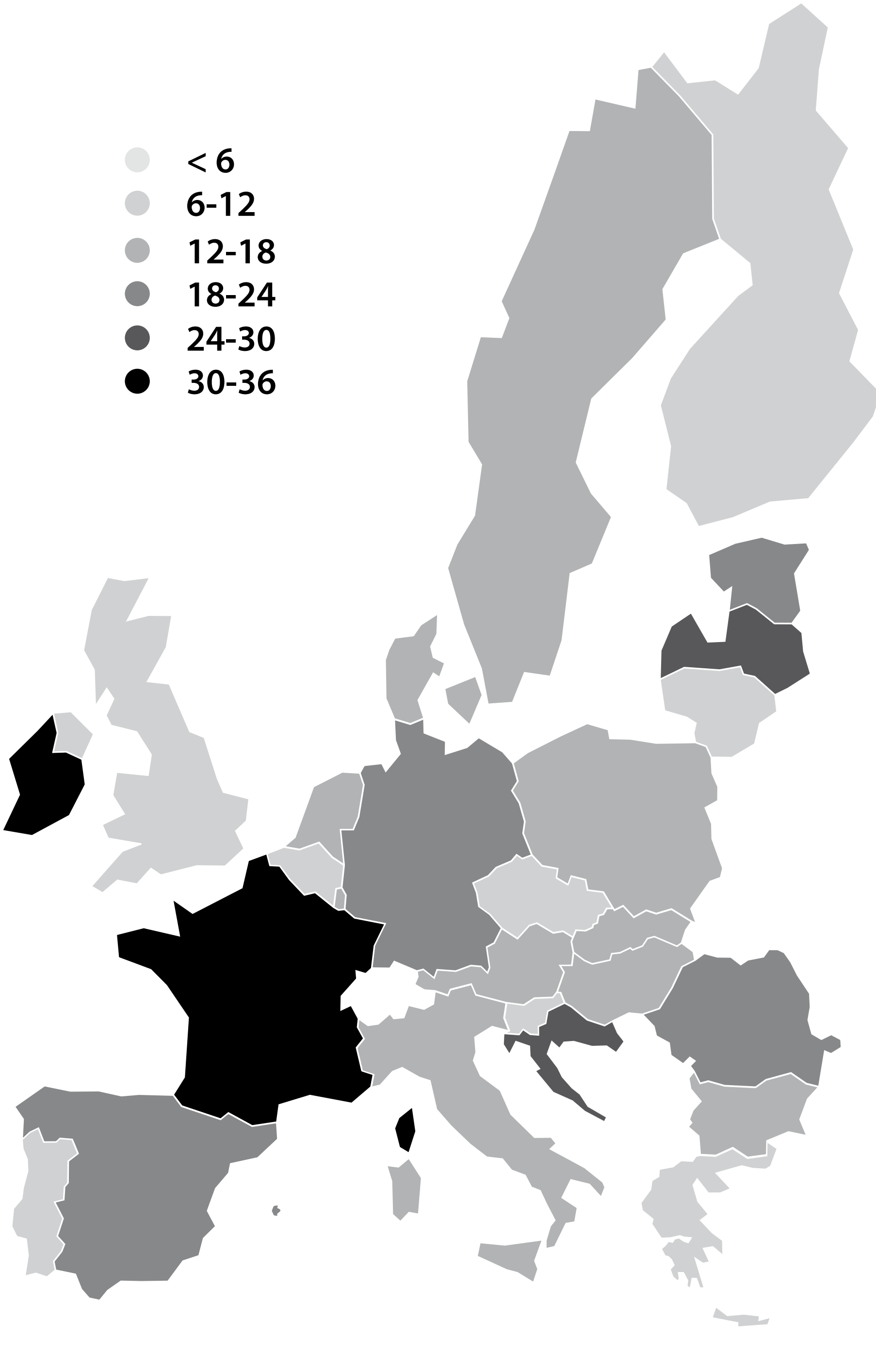
USERS OF COLLABORATIVE ECONOMY

According to Eurobarometer data, half of the population of the EU have heard about collaborative platforms, but only 17% use(d) them. There are significant differences between certain countries: France and Ire-

3 http://ipsos.hu/hu/news/fovarosiak-tamogatjak-az-uber-t

4 http://nepszava.hu/cikk/1095918-ketszer-annyian-taxiznak-mint-ubereznek-budapesten

Figure 2. Which of the following matches your experience regarding this type of platform? Total of “Used the services” answers



land lead with 35-36% of the population using such platforms, whereas Malta and Cyprus are the last ones with 2 and 4% of users as compared with the population. Hungary is somewhere in the middle with its 16%, and is one of the countries (like Estonia and Austria) where there are more people who have heard about the phenomenon but have not used them rather than those who do not know them at all. [See Figure 2]

Apart from the differences between the respective countries, there are also some interesting socio-demographic correlations: younger men (especially aged between 25 and 39) and those with a higher education are much more likely to use collaborative platforms.

The study on the phenomenon and reputation of the collaborative economy conducted by Pew Research in 2015[5], shows similar results: those with a higher education were four times more likely to use collaborative services than those without a diploma. The age correlation was also convincing: younger people (aged between 18 and 44) were much more active users than older respondents. The results also showed that people with a relatively high income were the most active customers.

Although these social differences are not too surprising, they still reveal some important correlations: users of a sharing economy usually come from social groups with certain characteristics both in Europe and in the US. Eurobarometer additionally emphasizes that if we examine these groups together and create a sub-sample from young urban employees with at least a secondary education, the rate of collaborative platforms' users amounts to 32% across Europe, which is almost two times more as in the entire society.

However, the above mentioned groups are not unknown to voter behavior experts: they are decisive actors at recent elections and referendums. When speaking of Brexit or Austrian presidential elections, the young, mainly urban, economically better off voters with a higher education were the classic "Remain" or green and pro-Europe voters of Van der Belle. When we recognize this kind of similarity between such different kinds of issues, it is worth considering the possible reasons for such an overlap and what factors can be found in the background.

SHARING ECONOMY
AS THE PRODUCT OF GLOBALIZATION

The basic idea behind a sharing economy and some of its aspects are not new at all: hitchhiking can be viewed as the early

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IN THE CASE OF A SHARING ECONOMY, TRUST IS NOT BASED ON PERSONAL RELATIONSHIP BUT THE COLLECTIVE EVALUATION OF OTHERWISE UNKNOWN USERS

[5] http://www.pewinternet.org/2016/05/19/the-new-digital-economy/

(and free) form of car sharing service. Later (but still before the emergence of online platforms), spontaneous services through which people could buy a ride in busy places in big cities (usually at a bus or train station) developed. We can also think of the communities where professionals with different expertise helped build each other's houses or harvest. What was affected by the difficulties in buying certain services or was simply related to trust issues. Finally, long before the launching of Airbnb, Couchsurfing offered a similar service, but it was not money in the center of its philosophy but getting to know other people and encouraging social interactions.

All these examples have two things in common: trust and reciprocity. The former is crucial if we are to let someone into our house or our car. The latter signifies paying for the service by offering a similar service in return at some other time. A sharing economy brings one crucial modification: from now on, services are tied to money and thus a sharing economy itself became an important part of the economy and society. This development has an important digital feature: it enables its agents to widen or substitute the circle of trust.

In the case of a sharing economy, trust is not based on personal relationship but the collective evaluation of otherwise unknown users: you trust an Uber driver or Airbnb accommodation because other users gave them a positive evaluation. This fundamental change in the trust relations is closely related to yet another phenomenon: globalization.

By the 21th century, due to technological development and a few other contributing factors, the world has become homogenous and diverse at the same time: thanks to the flow of information, scientific and academic trends and results are accessible regardless of geography. Hungarians, Finns, Americans can watch the same shows, follow political life, startups and business ideas from all around the globe. More people than ever before can speak foreign languages, and this creates a common reality for communication. The development of transportation and decreasing costs of access to it made meeting in person easier. Nevertheless, globalization generates both winners and losers: the opportunities explained so far are not for everyone. Additionally, while winners can and do meet with each other, losers are going through the same problems usually being far away from one another, separated from their peers, which, in turn creates further challenges.

WINNERS AND LOSERS OF GLOBALIZATION

Taking advantage of globalization is not automatic at all: without the necessary education and/or financial background it is much more difficult. Although technology reduces distances, it does not cease them: young adults in Western and Eastern Europe will not be the same, and someone in London will have different circumstances and opportunities than someone in Sunderland. Sharing economy services are closely connected to urban areas: Uber exists only in major cities whereas Airbnb is not a competitor in rural tourism as in many cases room renters in rural areas simply turned their traditional room renting services into Airbnb, while it was a real novelty in Budapest. Online platforms or applications can be used only by people with adequate digital literacy and trust towards innovative solutions. The lack of trust in online transactions is already featured in Eurobarometer data as one of the most important concerns compared to traditional forms of trade[6]. [See Figure 3]

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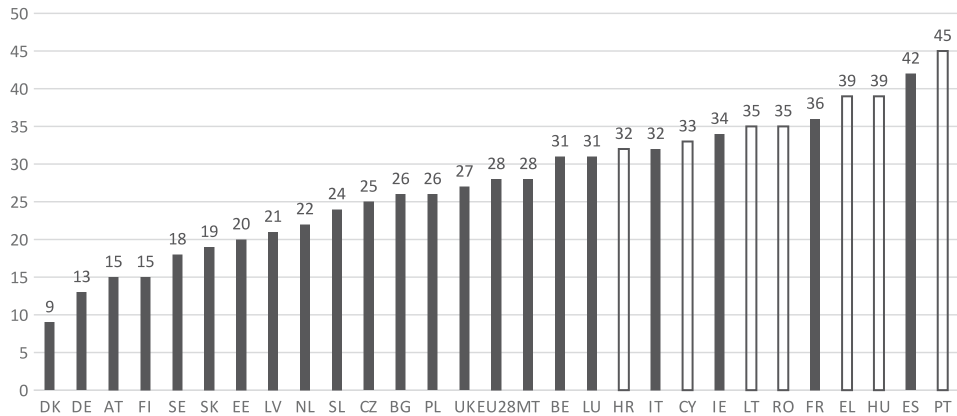
[6] It was listed second Europe-wide and first in several, mostly Eastern European countries (including Hungary).

Figure 3. "Compared to the traditional commerce of goods and services, what do you think are the main problems for the people using the services offered on these platform?". 'Not trusting in the internet transaction in general' – for countries marked with white it is the most important



Experts and the European Union expect the rocketing of the sharing economy's performance in the coming years. Despite this, the possible social impacts, and agents who will not be among the winners should not be ignored. The disadvantages are twofold: on the one hand, people who are not taking advantage of collaborative economy platforms will be forced to carry on without it (and as a consequence, they will need to employ more expensive, lower quality traditional services), and on the other hand, their personal, emotional well-being can be influenced negatively by the perception of being excluded from this economic growth. This phenomenon is confirmed also by the fact that the actual users of a sharing economy and the groups of those supporting globalization are very similar. Moreover, other Eurobarometer data from 2015 showed that people with positive attitudes towards globalization are very similar socio-demographically to the users of a sharing economy: younger, urban, well-off citizens with a higher education. [See Figure 4]

Economic and political context and concerns related to a sharing economy have a social dimension at the same time. It has recently become apparent that certain groups are being left out or excluded from the benefits of economic growth and development, and liberal political elites need to take responsibility for what is happening to these groups.

In the case of Brexit voters, their dissatisfaction with their situation and the lack of ability to take advantage of EU membership were remarkable aspects contributing to their attitude. We may easily recognize the same trends behind the popularity of Donald Trump in the United States: disillusioned Americans feeling left out of the country's progress (or believing they are its victims) have been long looking for someone who could represent them politically, and now they have found such a person in Donald Trump. These voters pose a notable challenge for individuals who want to live in a world based on free trade – because they fail to appreciate its benefits.

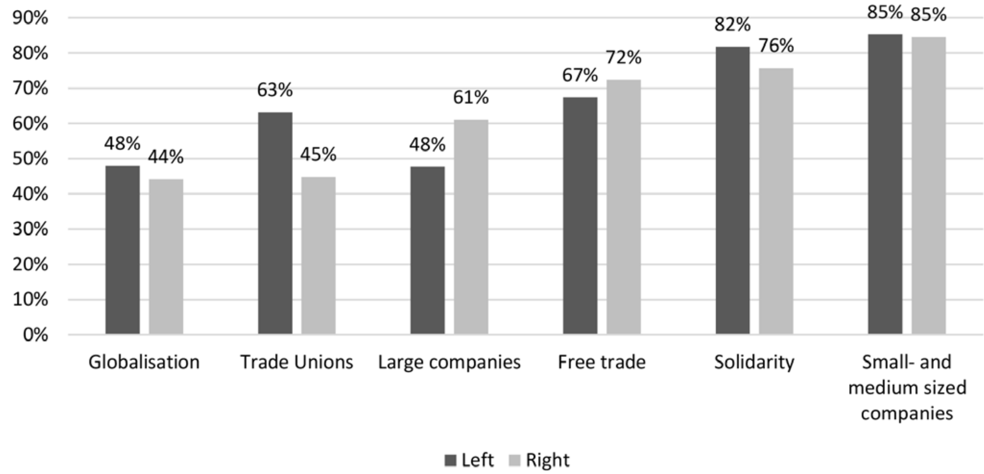
Figure 4. Social-demographic background of 1) users of collaborative platforms and 2) the term globalization brings something positive to mind

	Total "Used of Services"	Global-ization: positive
EU 28	17%	46%
Sex		
Male	21%	48%
Female	15%	44%
Age		
15-24	18%	64%
25-39	27%	52%
40-54	22%	44%
55+	10%	38%
Education (End of)		
15-	4%	37%
16-19	13%	43%
20+	27%	50%
Still studying	21%	67%
Respondent occupation scale		
Self-employed	26%	47%
Employee	25%	50%
Manual workers	14%	47%
Not working	11%	43%
Type of community		
Rural area or village		43%
Small/middle size town		45%
Large city		51%
Difficulties paying bills		
Most of the time		33%
From time to time		52%
Almost never/ never		50%

CHALLENGES POSED BY A SHARING ECONOMY FOR LIBERALS

A sharing economy and globalization as such, pose numerous economic or regulatory challenges which shall be discussed by experts. A sharing economy is a question of a life-style and social structures and depends not only on our financial situation but is related to many other factors. It is not only about a new kind of service which is innovative and costs less, but changes what we know and think about the borders of communities: it can bring people and enterprises closer together, but at the same time, it can change the way we make our short- or long term-decisions, be it the purchase of a car or a flat, or the profession we choose.

Figure 5. "For each of the following could you please tell me whether the term brings to mind something very positive, fairly positive, fairly negative or very negative?". Rate of very and fairly positive answers altogether



Source: Eurobarometer 2015

However, we still cannot be sure whether decisions concerning a sharing economy are made by citizens on the basis of information they get or by cooperating with others. While it is true that a sharing economy might bring different actors together with the state or society in the case of certain services, it can also have a negative impact on individuals as far as social systems are concerned: the long-term consequences of Uber rides and Airbnb holidays are not yet visible but they already signify less taxes, health insurance or pension affixes in the meantime.[7]

Although a sharing economy can contribute to a state with a smaller allocation and more individual responsibility, which is something liberals certainly support, if it is not happening with the necessary consciousness and the losers of globalization turn against the free market capitalist economy in general, the liberal foundations of our world might suffer. A sharing economy can easily lead to growing inequality which threatens political and social security – e.g. with populist parties gaining more and more support playing on these disappointments, dissatisfaction and frustration. Thus, the support for a sharing economy is as much an economic issue as a political one. [See Figure 5]

It is crucial that liberals take responsibility for these matters also because, in the case of globalization, the traditional right-left dichotomy does not work anymore regarding the represented groups or issues: neither the right, nor the left, clearly represent only the winners or only the losers of globalization. On the contrary: most traditional, establishment parties are still representing and talking to the winners regardless of political ideology, while losers are more often than not represented by populists, anti-establishment, or even radical parties. This also proves that the classic right-left opposition (which makes sense in terms

[7] http://index.hu/gazdasag/2016/01/20/uber_taxi_rendelet_budapest/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of solidarity, trade unions or large companies) does not work for the winners of globalization either.

POLITICAL REPRESENTATION AND SUPPORT FOR A SHARING ECONOMY

This is precisely why political and social aspects need to be discussed in the debate about the legislation and support for a sharing economy more than ever before, in order to reflect on the possible outcomes and indicators not only on the macro but also on the individual and community levels. Parallel to the growth of sharing economy, the enhancement of citizens' tax consciousness is crucial in order to make them understand how these new forms of services affect the providers' and costumers' situation. It is still a strong belief of some individuals about a sharing economy that providers are basically avoiding paying taxes, which seriously damages the taxation morality as the traditional service providers may feel legitimized not to play by the rules in order to make a living.

The spread of a collaborative economy might also bring a growing number of new forms of business. However, many countries simply lack the culture of doing business – this is especially true in Hungary[8]. The differences between and consequences (regarding health care, pensions, unemployment benefits) of being either an employee or an entrepreneur need to be emphasized in order to enable people to make conscious decisions and to reduce uncertainty and frustration.

Moreover, social groups where there are no conditions of developing an entrepreneurial attitude need to be addressed and their involvement and participation in a sharing economy should be promoted and supported – for example with the help of civil organizations and social entrepreneurship.

Needless to say, one of the greatest barriers of a sharing economy in the EU is the lack of digital literacy and trust towards online transactions. Age, income or geographic gaps will not cease automatically. Although the education system is struggling with mitigating these disadvantages, it still fails to improve digital skills in many countries. Thus, digital security and trust of citizens in it must be enhanced.

The expansion of a sharing economy also requires the reconsideration of customer protection and organizations: new forms bring new problems and possibilities to cheat, which can lead to the erosion of general trust in them and in business in general.

Although the regulation needs to be as limited as possible, the state has to consider the aspects of social integrity and create sector-specific circumstances in order to be able to handle middle- and long-term consequences. The growth of a sharing economy did not only lower the costs of certain services but also made people ask for and pay money for things that used to be free (Airbnb instead of Couchsurfing, Uber or other telecar services instead of hitchhiking.)

Finally, the fringe features of these services need to be monitored regularly – for example, Uber influences not only taxi services but also the usage and financing of public transportation.

CONCLUSIONS

A sharing economy is one of the most exciting and interesting forms of business. However, its impact reaches not only the

[8] http://ec.europa.eu/public_opinion/flash/fl_354_en.pdf

service or financial sectors: it is interwoven with other parallel social processes. Since the financial crisis of 2008, it has become more and more visible. Despite the fact that the global economy currently performs better in general, certain groups are not aware of this fact or are even under quite an opposite impression. Users and beneficiaries of a sharing economy come from certain groups with strong characteristics both in Europe and the US: young, urban, better-off adults with a higher education. They are open-minded and able to connect to the global society and realize the advantages it is offering. Nevertheless, we shall be aware of the fact that there is another group, which is considered to be outside of the recent economic and social progress, and its situation is defined by uncertainty, being excluded and turning inwards.

The expansion of a sharing economy very soon became a political problem: it is therefore crucial that political actors reflect on the recently emerged opposition to traditional service providers in a representative democracy. However, it is not certain whether traditional parties can adapt to this new kind of challenge. The traditional, right-left political division is not sufficient anymore to understand the phenomenon. Based on the above-mentioned examples, the divide is not really there. The losers of globalization can easily be reached by populist, anti-establishment parties, but the traditional parties (advocating liberal values, free market and democracy) are losing touch with them. This is why they are more often than not able to address only the problems of the winners.

Summarizing, a sharing economy unintentionally highlights the danger of the polarization of societies as it also contributes to the growing gap between social groups. In order to protect the liberal rule of law, these kinds of differences and divisions must be mitigated, while the innovation of the collaborative services must be promoted and incentivized while taking these factors into account. ●

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INTEGRITY
LAB

The aim of Integrity Lab is to analyze and formulate the social and political environment in Hungary and Europe by projects promoting the rule of law, active citizenship, and advancing liberty and prosperity with Hungarian and international allies sharing these principles and aims in order to find new, innovative solutions to the problems of the 21st century – let them be private, civil or political actors

Less Regulation, More Reputation!

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RÓBERT
CHOVANCULIAK

The emergence of a sharing economy has shaken things up in many sectors and within the regulatory frameworks. The greatest upheavals are currently being experienced by the taxi and accommodation services, since these are the services where the sharing economy has managed to compete with traditional service providers by (re-)employing idle capital.

Nevertheless, this is just one part of the influence of a sharing economy. The two aforementioned sectors are also characterized by rather extensive public regulation. This regulation is supposed to help mitigate the problem of asymmetrical information between service providers and their customers, i.e. to protect customers from inappropriate behavior on the part of providers.

This is the point where the sharing economy indirectly influences traditional sectors. The sharing economy demonstrates that existing public regulations are not the only alternative to alleviating the problem of asymmetrical information. Another alternative is private regulation provided by sharing economy platforms.

COMMERCIAL BUSINESS REGULATION

Regulation of the commercial business sphere by the government is a relatively hot topic these days. According to a new study by Coffey, McLaughlin and Peretto (2016)[1], the current GDP of the US would be 25% higher if federal regulation had not increased since the 1980s. So why does one need to regulate a voluntary contract between two fully responsible parties at all? If both sides voluntarily agree to a contract, by definition both sides gain ex ante. Otherwise, such a contract would not be entered into.

Currently, supporters of regulation most often cite the argument of the economic concept of information asymmetry. This is a situation where one party to the contract has an information advantage over the other[2]. In general, the provider of the product or service is the more informed party, who actually knows more about what is being sold than the buyer. Subsequently, as a solution to this "market failure", the government began to recommend regulation by public authorities that would bring about a balanced relationship between the provider and buyer. Thus, the term "consumer protection" came to be connected with the support of regulation. This approach to regulation will be hereinafter referred to as "public regulation."

Examples of such information asymmetry also exist in the areas of personal transport and accommodation. For example, at the end of the 19th century, some taxi drivers in San Francisco were called "nighthawks". The term was coined because, instead of taking their customers to the location they had requested, they would drive them out to some faraway, abandoned place where they would then demand extra money for not leaving them there. These taxi drivers misused their information advantage with regard to the customer. Public institutions at the time reacted promptly and issued a generally valid public regulation which prohibited a person from working as a taxi driver without a special license. A condition for obtaining the license was that the driver had to prove to officials that he was "a law-abiding citizen of good moral character"[3].

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[1] Coffey, B., McLaughlin, P. and Peretto, P. (2016) The Cumulative Cost of Regulations, The Mercatus Center at George Mason University, Available [online]: http://mercatus.org/publication/cumulative-cost-regulations

[2] Akerlof, G. A. (1970) "The Market for "Lemons": Quality Uncertainty and the Market Mechanism", The Quarterly Journal of Economics, Vol. 84, No. 3 (Aug., 1970), pp. 488-500.

[3] Anderson, D. (2013) The Short, Contentious History

This approach to regulation – a monopolistic authority creates generally valid rules for the entire sector – was often the only solution in the last century. And if there was a potential space for opportunistic action by service providers, the public authorities would, as a rule, react by limiting access to the field through licensing requirements, and imposing standards and rules, which were subsequently forced upon the providers and monitored through various inspections. However, this approach to regulation – "public regulation" – had its costs and shortcomings as well. Analytically, one can divide them into three areas: badly set incentives, knowledge problems and high transaction costs.

THREE SHORTCOMINGS OF PUBLIC REGULATION

In the second half of the 20th century, economists began to warn that if the market did not produce optimal results, it would not automatically mean that intervention by a monopolistic (State) authority would best solve the problem. They started pointing to what they called "the nirvana fallacy" (comparison of the perfect state to the imperfect function of the actual market) and, instead of simple recommendations for intervention, they guided research efforts towards comparisons of how various institutional arrangements worked[4]. Based on this approach, they discovered several shortcomings in the monopolistic approach.

I The Issue of Incentive Structure in Public Regulation

The first problem that public regulation faces is how to set the structure of incentives and the motivation of those who create them. If one wants to better understand the origins of public regulation, one must first let go of the assumption of the public sector as a benevolent creator of rules and regulations. Thus, the same (realistic) assumption must be applied to those who create policy as to other economic actors – they act in their own interests. In other words, it is naive to assume that public authorities automatically create regulation which is in the interest of the public as a whole, instead of regulation that benefits the narrow interests of certain groups[5].

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> IT IS THE SMALLER ORGANIZED GROUPS OF SERVICE PROVIDERS WHICH WILL BE MORE CAPABLE OF COORDINATING AND LOBBYING THE CREATORS OF PUBLIC REGULATION THAN LARGE, DISSIPATED GROUPS OF CONSUMERS

of the Gurney Cab Company in San Francisco, Available [online]: http://foundsf.org/index.php?title=The_Short,_Contentious_History_of_the_Gurney_Cab_Company_in_San_Francisco

[4] Demsetz, H. (1972) "Information and Efficiency: Another Viewpoint", Journal of Law and Economics.

[5] Buchanan, J. (1999) "Politics without Romance:

Economists have come up with several explanations of how regulation does not help "protect consumers", but instead actually helps bring political rents to selected companies. They explain the "capture of the regulator", who is actually captured by companies that she/he was supposed to regulate in the first place[6].

The main problem is that the right to regulate entire branches of industry is in the hands of *temporary administrators* (with a monopoly on the creation of regulation). These actors can transfer the costs of their decisions on to the masses (e.g. consumers) and, on the contrary, direct benefits in the form of rents into the hands of narrowly defined interest groups (e.g. established service providers) that reward them for it. Expecting something else from those who create public regulation thus means expecting them to contribute (with their work, time or careers) to the public good in the form of laws created for the public benefit. Nevertheless, as economists explain, the public good has a tendency to be under-produced[7]. So the same tendency for "under-production" will exist with public benefit regulation.

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THERE WILL ALWAYS BE A SYSTEMATIC TENDENCY FOR THE CREATION OF REGULATION THAT WILL, RATHER THAN PROTECT CONSUMERS, PROTECT THE MONOPOLY POSITION OF SEVERAL SELECTED PROVIDERS

Furthermore, Mancur Olson (1984)[8] showed that it is the smaller organized groups of service providers which will be more capable of coordinating and lobbying the creators of public regulation than large, dissipated groups of consumers. Moreover, established service providers often have an information advantage, not only over customers, but also over regulators (i.e. they know their true costs better). They can thus influence regulators' decisions, and in doing so, secure regulation that suits them better. There is also a frequent phenomenon known as the "revolving door", where the same people move between employment as a regulator and employment with a regulated firm, thereby perpetuating the above-mentioned capture of the regulator.

In the example cited above, where public regulation was supposed to be a tool against "nighthawks", it is also possible to find elements of the "capture of the regu-

A Sketch of Positive Public Choice Theory and Its Normative Implications", [in]: Collected Works of James M. Buchanan, Indianapolis: Liberty Fund, 1999, pp. 45–59.

[6] Stigler, G. (1971) "The Theory of Economic Regulation", [in]: Bell Journal of Economics and Management Science 2, pp. 3–21.

[7] Samuelson, P. (1954) "The Pure Theory of Public Expenditure", [in]: The Review of Economics and Statistics, Vol. 36, No. 4. (Nov., 1954), pp. 387-389.

[8] Olson, M. (1984) The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities, Yale University Press; new edition.

lator". Public regulation in San Francisco stipulated that for one registered vehicle, there could only be one licensed taxi driver. This efficiently protected against the entry of new competitors from other states, who were more effective in providing transportation (they charged lower prices). The reason for their effectiveness was above all the fact that several drivers used the same vehicle during the day and night. Independent drivers in San Francisco, who were attached to one vehicle and represented by the Carriage Drivers' Protective Union, did not like this. This Union actively supported the abovementioned public regulation prohibiting multiple drivers from using the same vehicle.

With regard to public regulation, there will always be a systematic tendency for the creation of regulation that will, rather than protect consumers, protect the monopoly position of several selected providers. The results are several types of ineffectiveness which economists have described: **a deadweight loss** (a less mutually beneficial exchange will take place than would take place without regulation); **rent seeking** (entrepreneurs spend resources on gaining political advantage and not on satisfying the needs of consumers); and **X-inefficiency** (there is no pressure of competition driving the effective management and operation of companies and no pressure to innovate). In a broad study by Matthew Mitchell (2012)[9], the author recorded numerous real-world examples where the regulator was captured by companies that were supposed to be regulated, leading to exactly this type of ineffectiveness.

II A Knowledge Problem When Setting Public Regulation

If one was to assume that a regulator has the best intentions (i.e. one ignores the problem of a bad incentive structure), the issue of identifying and creating the correct regulation remains (i.e. the knowledge problem).

Regulation creates various costs and benefits for the individual parties to a contract. Even the same piece of regulation can mean more costs than benefits for one side and more benefits than costs for the other side. How is a public regulator to decide whether to approve such regulation? If a regulator accepts strict conditions governing licensing for entrance to a field (for example, every hotel room must have air conditioning), high costs are created for providers. However, at the same time benefits are provided to consumers, who thus receive higher quality service (the guest can be sure that the room will never be too hot) . Thus public authorities face a knowledge problem when the costs of strict regulation are justified for providers, because they are more than compensated for by the benefits provided to consumers.

The principal challenge of a central public regulatory authority is to create rules and regulations that are sufficiently strict or lenient to generate more benefits than costs on the whole for all the actors involved. In other words, they result in the maximum total net gains.

However, when creating public regulation, the regulator does not generally possess the necessary knowledge of the specific time and place that is needed to evaluate individual costs and benefits correctly for various parties to the contract. A public authority with a monopoly on a blanket regulation valid for the entire economy also has no feedback that could assist it in finding out *ex post* whether the regulation in question generates net benefits or losses. No competitive pressure which would help to

[9] Mitchell, M. (2012) Beyond Bailouts: What Is Cronyism?, The Mercatus Center at George Mason University, Available [online] : http://mercatus.org/publication/beyond-bailouts-what-cronyism


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expose such unsuccessful regulation exists[10]. What is more, market conditions are continually and rapidly changing, which alters the relative costs and benefits of regulation, and also presents a plethora of new methods for resolving the problem of asymmetric information and opportunistic behavior. Nonetheless, a public authority is not flexible enough to react to these changes, since it cannot evaluate their relative advantages and does not have feedback available to it.

For example, within the realm of the taxi service in the Slovak Republic, registering an automobile which is more than eight years old as a taxi is prohibited. This regulation obviously represents costs for the service provider, who is forced to buy a newer car than he might have done if the regulation did not exist. On the other hand, it provides certain benefits to the customer who, thanks to the regulation, can travel in newer automobiles. Nevertheless, the question is whether this regulation produces net benefits in reality. Customers might be more willing to travel in older cars and pay lower prices. But the public regulator has no way of knowing whether the arbitrary decision was a good one and has no feedback available to assist in overcoming this knowledge gap. And its public regulation is generally valid throughout the entire territory of the country, so there is no pressure of competition.

III The High Transaction Costs of Public Regulation

If one assumed that public regulation was created by actors according to the well-being of society as a whole and that somehow they have managed to discover the correct types of regulation, it still does not guarantee the optimal functioning of public regulation. The reason for this is the high transaction cost which causes regulation, despite its correctness or quality, to function differently from the way it should. Regulation is far from self-enforcing and requires an active approach, whether from the side of those monitoring it, the subjects of the regulation themselves, or their customers.

An example of this could be the provision of taxi services as researched by us. For example, the public regulator in the Slovak Republic established rules for the correct provision of taxi services. If these rules are violated, customers can turn to an inspector. The latter will then issue a fine to the taxi driver or even confiscate his or her license. Under Law no. 56/2012 on road transportation, a taxi driver is obliged to let customers see the meter during the trip from beginning to end, and to take the shortest route possible, given the traffic situation. Another route can be taken only if the customer agrees to it or proposes it him- or herself.

Even if one assumes that these regulations are optimally set, the problem that, from the customer's point of view, it is often difficult to recognize a violation still remains. And if a customer can identify one, there are relatively high costs associated with pointing it out. The result is regulation that does not function optimally – it is not enforced. This is also the reason why taxi drivers in various cities often have a dubious reputation, despite the existence of regulation. In fact, taxi drivers know that the existing public regulation is often not enforced, and that they can abuse their position with regard to the consumer to their advantage, without real consequences.

Similarly, a central authority can issue the correct standards of quality and rules of service provision, but if it does not have suf-

[10] In other words, the creation of public regulation suffers from the same problems that central planners encountered when operating socialist economies without access to prices and the possibility of calculating profits and losses. See: Mises von, L. (1920) *Economic Calculation in the Socialist Commonwealth,* Auburn, Alabama: Ludwig von Mises Institute and Hayek von, F. (1935) *Collectivist Economic Planning,* Augustus M Kelley Pubs; New issue of 1935 edition.

ficient control or resources, the regulation remains without any real influence. For example, the Transportation Regulation Authority of the Slovak Republic (SR) has the right to levy a fine of EUR 100-15,000 on taxi drivers who charge prices that do not correspond with their normal tariffs. And despite the existence of this public regulation, there are relatively frequent examples of drivers overcharging tourists fares far above the official taxi tariff[11].

Thus, the result can be a situation where despite the *de jure* existence of the correct public regulation, the relationship between the service provider and the consumer will *de facto* be unregulated. And in this case, there will continue to be room for opportunistic behavior.

SHARING ECONOMY AND PRIVATE REGULATION

However, public regulation is not the only alternative. One does not face the choice between public regulation or no regulation at all. There is a third alternative – private regulation – which has, in recent times, been popularized above all by a sharing economy.

SHARING ECONOMY IN BRIEF

An alternative to the centralized approach to regulation as described above has been introduced by an IT revolution in the form of the Internet. At the turn of the millennium, the Internet was generally used as an "electronic newspaper". That is, an average user mostly took information from Internet pages in a passive way. With the appearance of Web 2.0 applications, however, it became possible and easy to actively participate in creating content and coordinating a large quantity of people at a low cost. Thus the first platforms enabling communication and online collaboration, the first social networks with virtual communities and mobile applications enabling interaction from practically any place in the world, began to appear. In addition to a revolution in blogging, social networks and crowdfunding, there was a revolution in the sphere of sharing. This brought with it (in addition to many other things) some interesting solutions to the problems of the information asymmetry described above. Specifically, this was in the area of private regulation through competition among decentralized platforms in a sharing economy.

Before sharing economy platforms emerged, numerous potentially advantageous exchanges existed, which were never implemented because of high transaction costs. It could easily happen that someone had a long unused drill at home, while at the same time someone in the next street needed one. What prevented the drill from getting from the hands of the first person into the hands of the second was that they simply did not know about each other. And if they did know, it would have been difficult for them to agree on a price; and if they did agree, they would have had to sign a contract; and if they had signed one, there would still be the problem of its enforcement and control. In other words, what prevented advantageous exchange were the abovementioned high transaction costs. And it is here, in the lowering of these costs, that sharing economy platforms have begun to function – and to achieve a profit[12].

[11] The problem is a slow and costly legal dispute resolution, which can also ultimately hinder the function of the regulation.

[12] Munger, M. (2015) The Third Entrepreneurial Revolution: A Middleman Economy, Duke University Department of Political Science.

Above all, the last part — that of transaction costs for "enforcement and control" — is highly relevant for this analysis. This is exactly the point where the platforms have managed to replace and even surmount existing public regulation. In other words, in many traditional fields, a sharing economy brought with it an alternative to public regulation. An alternative in the form of a decentralized approach to the creation of private regulation. Subsequently, with the aid of various mechanisms and systems, it creates trust between the two parties to a contract and mitigates the problem of asymmetric information, simultaneously solving all three of the problems of public regulation described above.

In addition to a more intensive use of resources (through sharing, renting and facilitating services), a sharing economy has also enabled the identification and pointing out of existing ineffective public regulation and then replacing it with higher quality private regulation. How this has been achieved is the subject of the following sections.

THREE ADVANTAGES OF A DECENTRALIZED APPROACH TO PRIVATE REGULATION

I Aligned Incentives in Private Regulation

The owners of platforms are the creators of private regulation. In contrast to politicians – the *temporary* administrators – who are responsible for creating public regulation, the makers of private regulation are the owners of the platform's equity. Thus, they have an incentive to approve rules and regulations that will maximize the value of their platforms in the long term.

For this reason, the owners of platforms in pursuing their own interests have to take the interests of all of the platform's participants into account, i.e. the service providers as well as the customers. The only way platform owners can make a profit is to create an environment (rules and regulations) that secures the maximum number of commercial transactions. So it is in the personal interest of private regulators to ensure that the platform is safe and that individual actors will be willing to sell, share, rent and provide services to the greatest extent possible.

Platform owners know that if individual actors feel secure, they will be willing to pay an increasing amount for services and enter into a larger number of contracts. This is how platforms generate income. And this is the reason why platforms in a sharing economy cannot be captured, as is the case in public regulation.

So income and wealth for a platform owner are thus directly dependent on how well the own private regulation can be set up. The incentives are aligned with the interests of the customers, just as, for example, with regard to Adam Smith's well-known baker:

"It is not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from their regard to their own self-interest. We address ourselves not to their humanity, but to their self-love, and never talk to them of our own necessities, but of their advantages."

One does not necessarily expect anything different from the creators of private regulation, except that they will serve their own interests. In the case of public regulation, it is exactly the opposite. The establishment of regulations that uplift the well-being of society would require good intentions on the part of politicians and regulators.

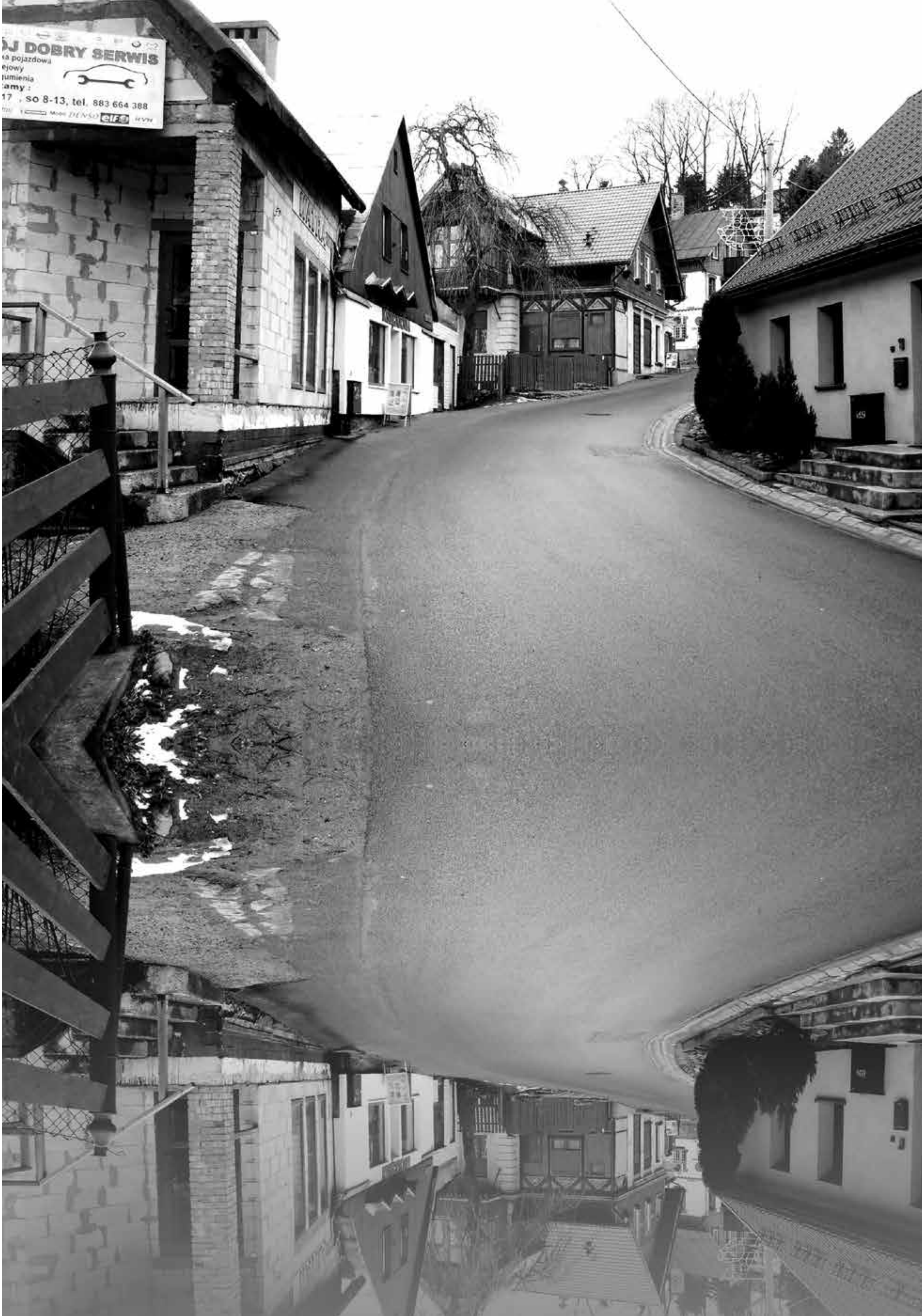
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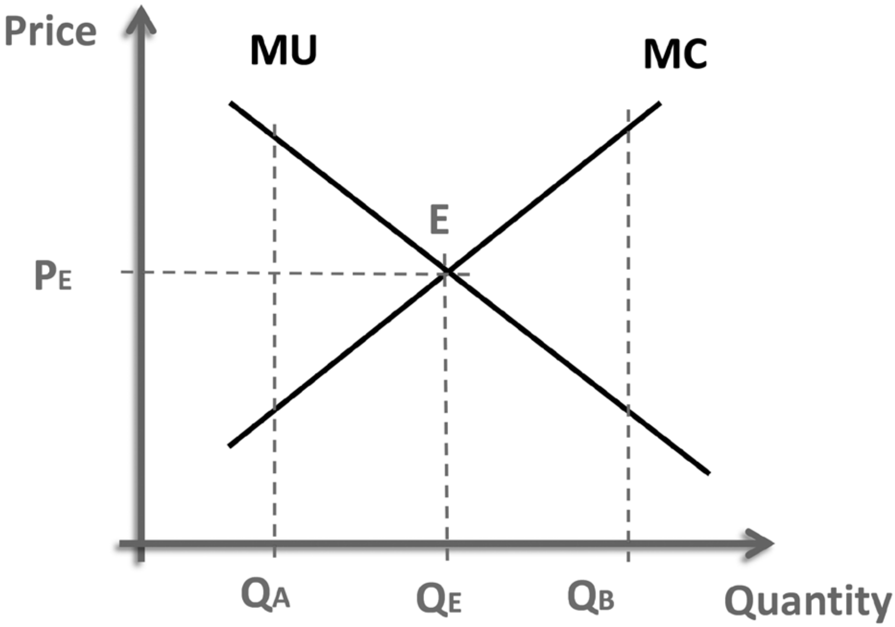
Figure 1: Marginal Utility and Marginal Costs of regulations



II Competition among Private Regulation which Generates Knowledge

In contrast to the creator of public regulation, a platform owner who creates private regulation does not have the opportunity of imposing his/her ideas about the correct way to regulate (for example, in the area of personal transport) on all the other participants in the economy. Nevertheless, platform owners possess the opportunity of limiting access to their own platforms – for those who do not fulfill the rules and regulations required by it. The owners can therefore regulate the conditions on their own platforms. Thus, a space for competition among decentralized platforms in the creation of private regulation emerges.

This competition helps to resolve the knowledge problem present when creating public regulation, which was already described above. Correct regulation must, after all, possess several attributes simultaneously. The same piece of regulation can bring both utility to the customer and unjustifiably high costs to providers. In the process of competition, entrepreneurs will discover that extent of regulation where the marginal costs will equal the marginal benefits (Figure 1, point E). That is regulation, which maximizes the net benefits resulting from it.

If, for example, one adopted regulation were too permissive (the left side of Figure 1, i.e. points Q_A to Q_E), there would be an opportunity for advantage through tightening the platform's safety regulations. This is because customers would be willing to pay more for higher security than the actual costs linked with the regulation itself – in economic terms, MU>MC (marginal utility > marginal costs). In the opposite case (the right side of Figure 1, points Q_E to Q_B), there would be a profit opportunity in abolishing regulations that are too strict (this is the reason why the private sector has the tendency to avoid excessive and unnecessary bureaucracy, in contrast to the public sector). The optimal level of regulation is found at the point where the marginal costs equal the marginal benefits of the added strictness of regulation. [See Figure 1]

However, in principle, private regulators by themselves do not have any better access to knowledge (than that needed to create the correct regulation) than the public regulator. They do, however, have access to feedback, and at the same time, are part of the process of market competition. With the aid of trial and error, market competition enables them to generate the required knowledge important for avoiding bad business decisions, while imitating and developing successful ones.

This characteristic of market competition was best described by the economist, Friedrich von Hayek (1968), who expanded the static understanding of competition to include its dynamic nature in the form of entrepreneur discovery. Later, he also applied this approach (in addition to relationships within the market) to the creation and emergence of law as an alternative to legislation (Hayek, 1973). Furthermore, he showed how the same process of dynamic discovery can also function in the monetary sphere where, according to him, competition between currencies should help to discover the correct form of money[13].

THE CREATORS OF PRIVATE REGULATION HAVE FEEDBACK IN THE FORM OF PROFITS AND LOSSES AT THEIR DISPOSAL, OR THE WAXING AND WANING OF CUSTOMERS AND SERVICE PROVIDERS

Today one can observe this process of dynamic discovery, thanks to a sharing economy and its platforms, as well as in the regulation[14]. Private regulation thus enables the parallel functioning of several regulatory frameworks, among which is competition. Moreover, the creators of pri-

[13] Hayek von, F. (1968) "Competition as a Discovery Procedure", [in]: *Quarterly Journal of Austrian Economics*, 5 (2002), pp. 9-23; Hayek von, F. (1973) *Law, Legislation and Liberty By F. A. Hayek,* London: Routledge and Hayek von, F. (1976) *Denationalisation of Money: The Argument Refined,* Coronet Books Inc.; 3rd edition (June 1990).

[14] Similar competition in the field of rules, regulations and security creation exists, for example, among proprietary communities, condominiums, hotels, shopping malls, amusement parks, etc. (Beito, Gordon and Tabarrok, 2009). The first rules and private regulation of stock exchanges emerged in a similar way in 17th-century Holland and later in England (Stringham, 2002 and 2003). See: Beito, D. T., Gordon, P., Tabarrok, A. (2009) *The Voluntary City: Choice, Community, and Civil Society*, Independent Institute; Stringham, E. (2002) "The emergence of the London Stock Exchange as a self-policing club", [in]: *Journal of Private Enterprise* and Stringham, E. (2003) "The extralegal development of securities trading in seventeenth-century Amsterdam", [in]: *Quarterly Review of Economics and Finance*.

vate regulation have feedback in the form of profits and losses at their disposal, or the waxing and waning of customers and service providers. This process helps them to select the correct types of regulations – bringing in those that result in net gains and getting rid of those that do not work.

For example, Uber established many conditions that interested service providers must adhere to on its platform. In some areas, these requirements are looser than those imposed by public regulation (vehicle inspections, psychological testing, knowledge testing), while in others they are stricter (e.g. driver screening and insurance levels)[15]. For example, Uber also requires that cars be not more than 10 years old, that drivers have no criminal record, (unpaid alimony is an exception) and have a minimum of three years of driving experience. Moreover, Uber requires that one enters one's payment card information to join the platform, and also has completely eliminated cash transactions (in doing so, it has significantly increased the safety of both drivers and customers). It also regulates its rates and a pairing mechanism – customers may not choose a driver themselves, but can refuse one who is assigned to them; similarly, the drivers see the demand for their services, but cannot see the destination of a trip. Furthermore, Uber provides information on how demand for transport is evolving or will evolve. It also insures its drivers and third parties against risk of up to EUR one million[16].

All these rules are merely attempts within the discovery process and other platforms can offer other solutions. For example, Lyft, the competing platform, enables customers to tip drivers – which Uber prohibits. Lyft also uses a different algorithm for matching and generating prices, surveys its drivers in more depth via interviews, requires drivers to mark their cars with a "fake pink moustache", offers a more personal approach with a greater representation of women and has an Emergency Call Center operating 24/7.

A similar discovery process for the correct regulations also exists on accommodation platforms. For example, Airbnb worked for a long time on designing the parameters in its disclosure system. Based on its own analyses, it came to the conclusion that, if on first contact people revealed too little or too much about themselves, their willingness to accept a guest decreased. The optimum was somewhere in the middle. For this reason, they designed a special acquaintance form for first contact where the guest has to answer three questions for the host: "tell us something about yourself; what brings you to the city and who is coming with you; and what did you like about our accommodation?" The space for the answers is set out precisely, so that answers are neither too short nor too long. The result is a higher level of trust between individuals on the platform.

III Radical Decrease in Transaction Costs of Private Regulation

In the previous section, it was shown how even the correct public regulation approved by benevolent regulators can be

[15] Feeney, M. (2015) *Is Ridesharing Safe*? The Cato Institute. January 27, 2015 | Number 767.

[16] This insurance becomes active only from the moment the Uber application is opened and the customer gets into the car. The moment the application is closed, the vehicle is covered only by normal compulsory insurance. A problematic situation emerged when the application was turned on, but the customer was not in the car. In this case, Uber provided only supplemental insurance known as "contingent liability coverage". In time, a type of insurance covering exactly this kind of situation came on to the market in the US. This insurance product is not as inexpensive as the classic non-commercial insurance, nor is it as expensive as the commercial insurance that taxi drivers use.

ineffective, if its enforcement is associated with high transaction costs, meaning this sort of public regulation works only *de jure* and not *de facto*. As platform owners, private regulators cannot afford this. Within the process of entrepreneurial discovery, they have brought various mechanisms to bear, which enable a radical decrease in transaction costs for the enforcement of private regulation. Examples of these are, above all, reputation systems and big data analysis.

Reputation systems allow for mutual evaluation by the individual parties to a contract. Customers say how satisfied they were with the service, and providers indicate how satisfied they were with the customer. Such reputation systems immediately create two-sided pressure on the parties to behave well and to refrain from abusing their information advantage.

1. The parties to the contract are *ex ante* motivated only to look for and enter into contracts with another party that has a positive evaluation and, thus, has behaved according to expectations in the past.

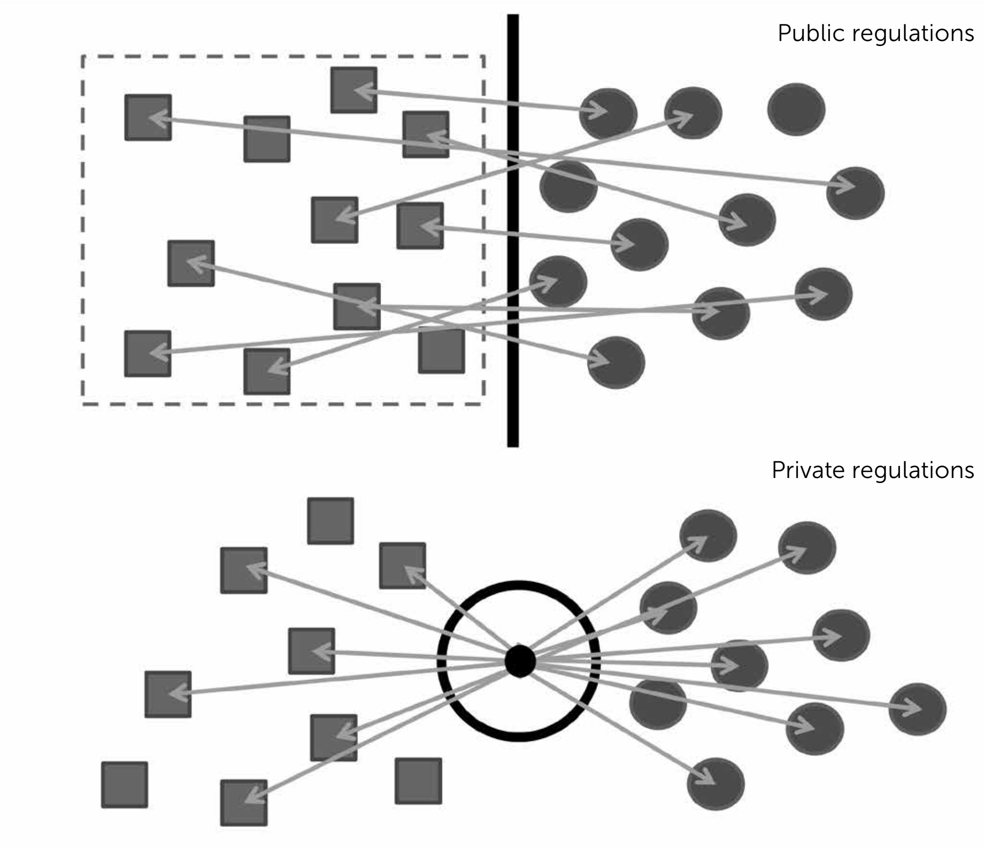
2. Subsequently, during the contract, the parties are motivated to uphold the rules of the platform and to avoid opportunistic behavior, since they will then *ex post* receive a poor evaluation.

Reputation systems thus improve cooperation, act as enforcement mechanisms, help signal trustworthiness and quality, lower risks, and motivate good behavior while punishing bad. In other words, they assist in solving the problem of information asymmetry.

If a driver on the Lyft platform receives an evaluation of less than 4.6 stars out of 5, his/her account will be deactivated. Alternatively, if a customer gives a driver less

REPUTATION SYSTEMS HELP RESOLVE EVEN THOSE SITUATIONS WHERE THERE IS A HIGH LEVEL OF INFORMATION ASYMMETRY

Figure 2: Public vs. private regulation in personal transport



than three stars, he or she will never again be paired with that driver. These mechanisms are also used effectively by a platform called Feastly, which links home cooks who are willing to prepare dinner at home, with potential customers who are willing to eat at someone else's house and pay for it. In this way, reputation systems help resolve even those situations where there is a high level of information asymmetry.

These systems replace anonymous interactions between random actors with interactions that happen in a center (the platform). This platform records the history of these interactions and thus helps to eliminate anonymity and to create trust. On the left side of Figure 2 are squares depicting drivers and, on the right, circles depicting customers. Arrows represent contracts between taxi drivers and their customers. Under classic public regulation, there is an effort to define correct service provision and then to enforce it (marked by the blue border lines). However, this method of enforcing regulation is very costly and often unreliable[17].

[17] For example, for years, regulators in Las Vegas had a problem with taxi drivers who cheated tourists by driving them the long way from the airport in order to

The establishment of a contract between the provider and customer under public regulation is, however, formed on a random basis and remains anonymous to a large extent (random arrows). The customer does not know the taxi driver's history, and potential opportunistic behavior does not affect his/her future reputation in any way. The taxi driver is motivated to externalize the costs of his/her bad behavior on to other taxi drivers, thus damaging the reputation of all taxi drivers.

The exact opposite happens on the lower part of the figure, where there is a diagram showing how the transportation of persons through the platform works (all arrows aiming towards the big black circle). Here, the customer knows the driver's history and the latter cannot externalize costs to other drivers through bad behavior. Instead, the costs remain internalized with him/her. This, of course, creates the pressure to behave well. [See Figure 2]

Another method used by platform owners to decrease information asymmetry is "big data" analysis. This sort of analysis uses computer algorithms to monitor millions of transactions and, based on the certain keys, block or mark those that are suspicious. The latter are then sent to a team of investigators for a deeper analysis.

In all three problematic areas (incentives, knowledge and transaction costs), private regulation in a sharing economy brings theoretical tendency with it as well as the empirical experience to outdo public regulation by public authorities. If one takes these tendencies and experience seriously, a sharing economy can represent not only a tool for implementing a mutually beneficial exchange that would not oth-

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DESPITE THE FACT THAT PUBLIC REGULATION OF THE BUSINESS ENVIRONMENT NORMALLY PRESENTS ITSELF AS ASSISTANCE TO CONSUMERS, MANY PUBLIC REGULATIONS ARE MORE A RESULT OF PRESSURE FROM INTEREST GROUPS OR EXCESSIVELY ACTIVE AND NAIVE POLITICIANS

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make more money. The local regulator had tried everything: from the classic issuance of standards for taxi driver behavior and police monitoring of the drivers' routes to large information boards showing the right route or creating a system where travelers could submit complaints. They even had a plan for requiring the installation of new surveillance equipment that would monitor whether a taxi driver was cheating customers. None of these were effective (Ross, 2014). This problem in Las Vegas was finally resolved by Uber with its private regulation and reputation systems. And only until the moment it was banned (a year later it was allowed again). See: Ross, B. (2014) *Uber.gov It's Time to Let the Government Drive*, Available [online]: https://medium.com/@blakeross/uber-gov-29db5fdff372 erwise occur[18], but can also be a means of the identification and overturn of an old, dysfunctional and ineffective public regulation.

SHARING ECONOMY AS A LITMUS TEST

The mere existence of public regulation in the legislation does not automatically mean that it is economically or socially justified or even beneficial. The opposite is true in several cases. Despite the fact that public regulation of the business environment normally presents itself as assistance to consumers, many public regulations are more a result of pressure from interest groups or excessively active and naive politicians (regulators).

In this case, it would be better from the consumer's point of view if the particular regulation were abolished or not formally enforced. Yet, in practice, it is not easy to recognize when the costs of public regulation are higher than its benefits and when it rather benefits a concentrated interest group than dissipated and disorganized consumers.

When resolving this problem, on the one hand, one can try to rely on political processes and democratic mechanisms. Nonetheless, this takes a long time and in some cases one cannot even expect to see such changes. The problem is information asymmetry between voters and politicians on the one side and between consumers and interest groups on the other. Voters simply do not have the motivation to inform themselves on a daily basis or to monitor politicians as to whether they are approving only regulations that increase public well-being. So politicians have wide room to manoeuver when performing their legislative-regulatory roles. It is as difficult for people to evaluate whether, from the point of view of consumers, the regulated branch would function better or worse without public regulation. The consumer would have to undertake some complex thinking about how the world would appear without a specific piece of public regulation.

One is getting into a paradoxical situation here. As was illustrated at the beginning, information asymmetry is presented as one of the main arguments for bringing in regulation (the producer or service provider knows more than the customer) and, at the same time, one of the main reasons for the ineffectiveness of these public regulations (the voter and consumer cannot monitor politicians or identify ineffective regulation).

> SHARING ECONOMY WITH ITS PRIVATE REGULATION CAN HELP TO BREAK THE THICK POLITICAL ICE

It is, however, sharing economy with its private regulation that can help to break the thick political ice. A sharing economy disrupts old public regulation. And it does

[18] A new study by Krueger and Cramer (2016) finds that Uber drivers can use their time much more effectively when they are driving. They spend 30-50% less time and drive 30-50% fewer kilometers with an empty vehicle than normal taxi drivers. So Uber not only outdoes the old regulation, but also enables more effective use of time and space. See: Cramer J., Krueger, A. B. (2016) *Disruptive Change in the Taxi Business: The Case of Uber*, NBER Working Paper No. 22083.

so in such a way as to test the net benefit resulting from it and simultaneously to mobilize people to political action. In this way, it solves two of the problems described above.

3. In a sharing economy, consumers, through their buying decisions, compare classic services under public regulation with services based on new technology and private regulation. In this way, they test the relative effectiveness of public regulation vs new private regulation in a sharing economy. A sharing economy thus lets customers experience what a service which is not publicly regulated looks like – a service that solves the problem of information asymmetry through the private rules of a platform. If public regulation is truly justified, then its private alternative should collapse into a spiral of dysfunction due to customer dissatisfaction from information asymmetry (as the theory of usefulness of governmental regulation predicts).

4. A sharing economy therefore also enables the mobilization of people and the creation of pressure on politicians whose room for manoeuver is thus decreased. The latter then give in to the people's will. For this reason, it is a highly democratic way of changing regulation. A recent example of such a series of events took place in New York City, where Mayor Bill de Blasio attempted to limit the number of drivers allowed to drive for Uber. There was a large wave of protest against this by ordinary citizens, and de Blasio, who had officially received campaign contributions of USD 500,000 from the taxi lobby, had to withdraw the proposal. Because of Uber's popularity and the pressure brought to bear by the public, New York has one fewer bad regulations (even if the old regulation is still in place). Mayor de Blasio had to give in to the voters.

An even more recent and definitely more interesting example comes from the city of Sarasota, Florida, where the city council was supposed to vote on the proposed regulation of Uber. The proposal was to impose all the existing regulation for classic taxi drivers on Uber as well. Uber reacted to this by threatening to leave the city. Once again, this made for an angry public, which had become used to Uber and considered it as something positive. Finally, not only was Councilwoman Susan Chapman's proposal not accepted and Uber not regulated, but the existing regulation on classic taxi drivers was unanimously abolished.

EU INSTITUTIONS AND A SHARING ECONOMY

At the beginning of 2016, the European Parliament commissioned a study, the main conclusion of which was that a sharing economy could potentially bring Europe added value of as much as EUR 572 billion annually. This would occur mainly because of better utilization of valuable resources and capacities. The study's conclusions are positive about a sharing economy, but warn of the possible risks represented by, above all, extreme reactions by governments in the form of regulation and the limitation of functions of a sharing economy. Eventually, these reactions could shrink its added value.

Another EU institution addressing a sharing economy is the European Court of Justice. It is expected to decide whether Uber will be considered a transportation service or a technology company. Based on this decision, Uber will be subject to various regulations and limitations under EU law.

Quite recently, the European Commission (EC) published guidance and policy recommendations (02/06/2016). The relatively positive stance of the EC towards a sharing economy's benefits should be welcomed.

The EC literally points out that a sharing economy offers marked benefits and represents new opportunities for the future.

The EC's call on governments to release a sharing economy from highly restrictive and often unjustified limitations should also be welcomed. And this is predominantly the case in situations where the effects and results of a sharing economy have not been sufficiently researched, while at the same time much less limiting approaches than "prohibit it completely" exist.

The EC also points out to member states that they can use the sharing economy's arrival to re-evaluate the added value of existing public regulation. That is, above all, its frequent shortcomings, which were indicated above. At the same time, the EC underlines the function of "rating and reputational systems or other mechanisms" within a sharing economy, which can, according to the EC, "reduce risks for consumers stemming from information asymmetries". And thus, "this can contribute to higher quality services and potentially reduce the need for certain elements of regulation".

On the other hand, the EC refused to set a type of "maximum" regulation limits and often admits evaluating the appropriate level of regulation on a "case by case" basis. This approach raises concerns that too many countries or regions can claim their situation as unique and apply restrictive regulations. And the result will be exactly what this study and the EC fear and warn against.

Nevertheless, trying to create uniform regulation for a sharing economy on the EU level is not a solution either. The problem is that state public regulations which have to be changed as a result of a sharing economy are very diverse in different countries: taxes, labor codes, social policy, licensing, establishment of a business, etc.

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CREATORS OF PRIVATE REGULATIONS ARE OWNERS AND IT IS IN THEIR SELF-INTEREST TO CREATE AS EFFECTIVE REGULATIONS AS POSSIBLE. THIS DOES NOT HOLD FOR PUBLIC REGULATIONS

CONCLUSIONS

Firstly, it is important to recognize that one has to compare real public regulations with real private regulations. Neither of them is perfect. However, as was shown above, creators of private regulations are owners and it is in their self-interest to create as effective regulations as possible. This does not hold for public regulations.

It is also important to recognize that although individual sharing economy platforms compete with companies from various traditional sectors, it does not follow that they should be regulated by existing

> RATHER THAN TRYING TO FORCE NEW TECHNOLOGIES TO SUBMIT TO OLD EXISTING REGULATIONS, EXISTING PUBLIC REGULATIONS SHOULD BE ADAPTED TO CURRENT DEVELOPMENTS

public regulations. Rather than trying to force new technologies to submit to old existing regulations, existing public regulations should be adapted to current developments.

The approach to "shoot first and ask questions later" being used by various (local) governments is even worse. It not only cuts off current customers and suppliers from the mutually beneficial exchange, but it creates high costs and barriers to entry into the markets (not everyone can afford to pay lawyers and fines to get their representatives out of prison). Hence, governments by their incorrect approach to a sharing economy can create monopoly problems in the future (which will then require other interventions and thus trigger a spiral of interventions).

Furthermore, this approach cuts off the whole of society from the future potential of new technologies and solutions to all kinds of problems, needs and requirements. Thus, society faces the risk of slowing or negatively affecting the development and enormous potential of this new branch of the economy.

There are six principles which should be followed when creating or re-evaluating public regulations of a sharing economy:

1. New regulations should not limit choices for customers and service providers within a sharing economy;

2. New regulations should support a sharing economy's strong points – flexibility, decreased transaction costs, employment, employment of marginalized population groups, identification of bad public regulations;

3. The playing field should be levelled towards fewer regulations; it should lead to the liberalization of existing public regulations;

4. Public authorities should set clear and simple rules assigning responsibility for safety and apply them equally to all platforms and traditional service providers. This means that entrepreneurs should be held liable for potential harm to consumers, but legislation should not try to prescribe detailed solutions. There should be space for innovative answers to the problems;

5. The EU should develop a guideline for best practices on how to react to a sharing economy. It should also focus on

THE OLUNTARINESS IS THE ULTIMATE TEST OF NET BENEFITS FOR SOCIETY. HENCE, A SHARING ECONOMY IS A THREAT TO SOME, BUT AN OPPORTUNITY FOR EVERYONE

making sure that states do not violate basic rules – open competition and the free movement of goods, services, people and capital;

6. The possibility of tax compensation for traditional sectors, which were forced to bear the cost of public regulations so as to mitigate their opposition, should be reconsidered. A sharing economy is an opportunity for everyone. Do not get it wrong. There will be losers. Like every innovation, a sharing economy threatens the traditional ways of doing things. So how can one be sure that there will be more winners? The main reason is that this change is taking place through a chain of voluntary exchanges. The voluntariness is the ultimate test of net benefits for society. Hence, a sharing economy is a threat to some, but an opportunity for everyone.

The article is a part of the paper "Less regulation, more reputation! Case Study: Sharing economy in transportation and accommodation" published by 4liberty.eu in July 2016. The study was conducted by INESS (Slovakia), LFMI (Lithuania), IME (Bulgaria) and CETA (the Czech Republic). The publication can be accessed online: http://4liberty.eu/less-regulation-more-reputation/ ●

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Afterword

Let Us Share What We Do Best

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Love it or hate it, the digital economy is not a futuristic concept anymore. It is very much a phenomenon of today, which causes a lot of headache to decision makers. Central-Eastern European countries have either given in to the lobby of the more traditional economies (such as taxi companies) and reacted against the newly emerging innovations, or – as in the case of Estonia – they are embracing the change by creating an open legal framework to aid the new, digital markets.

Sharing and digital economies usually thrive together in happy symbiosis. Digitalization, easy access to the Internet, apps and smartphones made sharing behaviors easier, and provided a platform for buyers and sellers to find each other. The question of the digital and sharing economy is not a purely economic or legal one. Decisions of politicians *for* or *against* the new trends affect voter behaviors. The new digital services create a new political demographic: people who are used to immediate access to services and feedback, and people who see how others, in more fortunate places, benefit from a sharing economy.

Sharing enabled people who cannot afford certain properties, such as a car or a flat, to gain access to the possessions of others, who in turn can capitalize on this demand. The positive externalities of such voluntary exchanges affect the economy in general and feed innovation by creating incentives for average individuals as well as market players.

Innovative technologies have found their ways into all walks of life. People of all ages are strolling through the streets immersed in the content on their smartphones and enjoying the latest fads – today it is Pokémon Go, tomorrow it will be something else. Despite the wide criticism such creative solutions may meet, they also make a lot of people smile. And so, eager Pokémon hunters go out onto the streets, run around, socialize with like-minded individuals and contribute to the economy – as local businesses found ways to capitalize on this recent craze[1].

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> WHILE A LOT OF PEOPLE HAVE LOST FAITH IN THE POLITICAL SYSTEM AND POLITICIANS AS SUCH, THEY ARE WILLING TO BELIEVE A REPUTATION SYSTEM. EBAY, UBER AND AIRBNB USE THE RATING-BASED METHOD TO BUILD TRUST, RATHER THAN TELLING PEOPLE TO TRUST THEIR CUSTOMERS AS A RULE

[1] Some businesses (cafes, restaurants etc.) lure people in by advertizing that there is a rare Pokémon in their shop.

The phenomenon of Pokémon Go reminds us that a free market cannot be predicted. Economists should examine opportunities and incentives rather than absolutes. There is no way of telling if a new sector will emerge and what externalities it will bring. Nowadays, people can use Tinder to find a life partner, Kickstarter or Indiegogo to find investors for their businesses and use various services to shop online. A lot of people do not even have to hire someone to pick up their child home from school while they are working, as they can trust a stranger, for example an Uber driver to safely fulfill this task. This is because trust is being built by the feedback system, which shows the positive or negative opinions of users.

While a lot of people have lost faith in the political system and politicians as such, they are willing to believe a reputation system. Ebay, Uber and Airbnb use the rating-based method to build trust, rather than telling people to trust their customers as a rule[2].

However, while a lot of sharing services have managed to build trust among the buyers and sellers, in some cases the service itself failed to be welcomed with open arms by the population. In many countries digital literacy is still below average and people are afraid to use the Internet for purchases and transactions. The novelty of the digitalized sharing economy meant that the tax code in various countries could not fit the new businesses into a clear category, thus politicians and their voters alike felt that the new services are not contributing enough. This obviously is not always true, but populists have managed to exploit the general lack of knowledge about this new market to bring legislation against them, to help the protectionist lobby.

[2] This grassroots trust and reputation building is also crucial at P2P crowdfunding.

The articles featured in this issue explored the practices of the Central-Eastern European countries, demonstrating good and bad policies and providing recommendations in order to facilitate a better future where sharing economy can thrive in a digital age, and everyone has the opportunity to benefit from it.

It is my personal belief that the main objective of the authors contributing to this issue was to assist the decision makers, the voters and the companies in understanding the mechanisms behind these new, innovative economies from the perspective of economics, politics and law. By providing both sides of the argument and by analyzing practices from different countries, the fifth issue of the *4liberty.eu Review* magazine is a diverse collection of ideas, suggestions and experiences.

We hope you found as much pleasure in reading the presented articles as we had in writing and editing them, and that you can take away something new from the experience. Because you should not be afraid of new things. Some caution is, of course, welcome, but do not forget that it is constant change that is the vehicle of progress. So let us move forward by doing what this new economic trend does: by sharing. Sharing knowledge and experiences, to benefit us all. ●

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MÁTÉ
HAJBA

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MEMBERS OF 4LIBERTY.EU NETWORK

Free Market Foundation (Hungary) is a think tank dedicated to promoting classical liberal values and ideas. The organization's projects focus on advocating a free market economy and fighting racism. The Foundation's activities involve education, activism and academic research alike, thus reaching out to different people.

Liberální Institut (Prague, Czech Republic) is a non-governmental, non-partisan, non-profit think tank for the development, dissemination and application of classical liberal ideas and programs based on the principles of classical liberalism. It focuses on three types of activities: education, research, and publication.

Svetilnik (Ljubljana, Slovenia) is a non-profit, non-governmental and non-political association. Its mission is to enlighten Slovenia with ideas of freedom. The goal of the association is a society where individuals are free to pursue their own interests, and are responsible for their actions.

The Lithuanian Free Market Institute (Vilnius, Lithuania) is a private, non-profit, non-partisan organisation established in 1990 to promote the ideas of individual freedom and responsibility, free market, and limited government. The LFMI's team conducts research on key economic and economic policy issues, develops conceptual reform packages, drafts and evaluates legislative proposals and aids government institutions by advising how to better implement the principles of free market in Lithuania.

The F. A. Hayek Foundation (Bratislava, Slovakia) – is an independent and non-political, non-profit organization, founded in 1991, by a group of free-market oriented Slovak economists. The core mission of the F. A. Hayek Foundation is to establish a tradition of market-oriented thinking in Slovakia – an approach that had not existed before the 1990's in our region.

IME (Sofia, Bulgaria) is the first and oldest independent economic policy think tank in Bulgaria. Its mission is to elaborate and advocate market-based solutions to challenges citizens of Bulgaria and the region face in reforms. This mission has been pursued sine early 1993 when the Institute was formally registered a non-profit legal entity.

The Academy of Liberalism (Tallinn, Estonia) was established in the late 1990s. Its aim is to promote liberal world view to oppose the emergence of socialist ideas in society.

INESS (Bratislava, Slovakia), the Institute of Economic and Social Studies, began its activities in January 2006. As an independent think tank, INESS monitors the functioning and financing of the public sector, evaluates the effects of legislative changes on the economy and society and comments on current economic and social issues.

Projekt: Polska (Warsaw, Poland) Projekt: Polska are people who are dreaming of a modern, open, and liberal Poland. Those, to whom a democratic, effective and citizen-friendly government is a key goal, and who help accomplish this goal while enjoying themselves, forming new friendships, and furthering their own interests.

Liberales Institut (Potsdam, Germany) is the think tank of the Friedrich Naumann Foundation for Freedom dedicated to political issues such as how liberalism can respond to challenges of contemporary world and how the liberal ideas can contribute to shaping the future.

Fundacja Industrial (Lodz, Poland) is a think tank created in Łódź in 2007. Its mission is to promote an open society, liberal economic ideas and liberal culture and to organize a social movement around these ideas. Among Foundation's most recognizable projects are: Liberté!, Freedom Games, 6. District. Foundation is coordinating 4liberty.eu project on behalf of Friedrich Naumann Foundation.

Republikon Institute (Budapest, Hungary) is a liberal think tank organisation based in Budapest, focusing on analysing Hungarian and international politics, formulating policy recommendations and initiating projects that contribute to a more open, democratic and free society.

Civil Development Forum (FOR) (Warsaw, Poland**)** was founded in March 2007 in Warsaw by Professor Leszek Balcerowicz as a non-profit organization. Its aim is to participate in public debate on economic issues, present reliable ideas and promote active behaviour. FOR's research activity focuses on four areas: less fiscalism and more employment, more market competition, stronger rule of law and impact of the EU regulations on the economic growth in Poland. FOR presents its finding in the forms of reports, policy briefs and educational papers. Other projects and activities of FOR include among others Public Debt Clock, social campaigns, public debates, lectures, spring and autumn economic schools.

Visio Institut (Ljubljana, Slovenia) is an independent public policy think tank in Slovenia. Aiming for open, free, fair and developed Slovenia, the Visio Institut is publishing a ray of publications, while Visio scholars regularly appear in media and at public events.

COOPERATING PARTNERS FROM EASTERN PARTNERSHIP COUNTRIES

The Institute for Economic Research and Policy Consulting (Kiev, Ukraine) is a well-known Ukrainian independent think tank, focusing on economic research and policy consulting. IER was founded in October 1999 by top-ranking Ukrainian politicians and scientists and German Advisory Group on economic reforms in Ukraine, which has been a part of Germany's TRANSFORM programme. Its mission is to provide an alternative position on key problems of social and economic development of Ukraine.

New Economic School – Georgia (Tbilisi, Georgia) is a free market think-tank, non-profit organisation, NGO. Its main mission is education of young people in free market ideas. It organizes seminars, workshops and conferences for education and exchanges of ideas. NESG was founded by Georgian individuals to fill the gap of the market economy knowledge in the country and the deficit of good teachers and economics textbooks.

The sharing economy revolution is really led by public demand. The rise of the app economy has happened incredibly quickly. Today, well over 60% of all Internet traffic now comes from mobile, and half of that is driven by apps. Estonians have proven to be open to new technology, with more than 70% of all phones sold in Estonia being smartphones. The impact of this smartphone-based sharing economy revolution is being felt in almost every industry around the world: from communications and commerce, to banking, entertainment and transportation.

If people understood the term ‚sharing economy' correctly (as thinking, not as a thing), they should be open to the discussion that it needs a new legislative environment. No one can prevent people from consuming smart economic goods for lower prices. It would be simply wasteful and, moreover, banning such solutions would be a strong incentive for moving the sharing economy into the shadow economy. That is just a fact.

If ever there was an example of an unregulated free market approach to the development of a new type of social relations in Bulgaria – it is the spread of the Internet in the country. Bulgaria currently has one of the most developed broadband infrastructures in the EU and frequently makes it in the top 10 of various global connectivity speed rankings. However, all is not well when it comes to the significance of the Internet in the everyday life of an average Bulgarian.

The global economy is now digitalized and the digital economy is changing extremely fast. The race for innovation, skills and markets forces all governments and organizations to anticipate and adapt in order to thrive. Poland is lagging behind many other countries when it comes to the fast, reliable and connected digital networks which underpin economies and every part of the administration, business and private lives.

Online accommodation rental site Airbnb has already reached 8,000 home listings in Hungary, with some 3,500 of these located in Budapest in August 2015. Since then, they have ceased to give comprehensive data, but it can be assumed that some of those listings were not entire apartments. Also, if anyone has spent any time looking for an Airbnb host, they will know that the number of amateur and inactive hosts can be exasperating.

Opportunities and innovations coming from a sharing economy can be realized if they are regulated appropriately and efficiently, which requires a predictable social and political environment. Examples of the two most popular services – Airbnb (offering rooms and flats for short term rent) and Uber (for car transportation) – illustrate well what impact they can have on society – revealing and generating both positive attitudes and serious concerns.

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